

**STATE OF LOUISIANA
LEGISLATIVE AUDITOR**

Selected State Purchasing Practices

February 1995



Performance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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**Performance Audit
Office of Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor**

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February 9, 1995

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Honorable Samuel B. Nunez, Jr.,
President of the Senate
Honorable John A. Alario, Jr.,
Speaker of the House of Representatives
and
Members of the Legislative Audit Advisory Council

Dear Legislators:

This is our report of the performance audit of Selected State Purchasing Practices. This audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards.

The report represents our findings, conclusions, and recommendations. Also included as Appendix I are the responses of the Office of State Purchasing.

Sincerely,

A handwritten signature in black ink that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/jl

ILEGLTRI



Office of Legislative Auditor

Executive Summary

Performance Audit

Selected State Purchasing Practices

The goal of this audit is to provide Louisiana's legislators with reliable and independent information needed to determine whether state government is carrying out selected purchasing functions in an economical and efficient manner. Our performance audit of selected state purchasing practices found that:

- ◆ The state does not track total statewide procurement expenditures in a usable format.
- ◆ Certain aspects of state law and Office of State Purchasing policy may unnecessarily increase the cost of supplies, services, and major repairs.
- ◆ Office of State Purchasing is not performing critical quality control functions associated with the state's purchasing system.
- ◆ Office of State Purchasing does not effectively monitor the performance of vendors who do business with the state.
- ◆ Current purchasing limits have not kept pace with inflation. In addition, the current thresholds and bid requirements for small purchases result in unnecessary time and expense.
- ◆ Innovative procurement practices including electronic data interchange, purchasing schedules and catalogs, credit card purchasing, consortia purchasing, and competitiveness measures have indicated possible savings in other states.

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Audit Initiation and Objectives

This audit of selected purchasing practices was conducted by the Performance Audit Division of the Office of Legislative Auditor. The Legislative Audit Advisory Council approved the concept of this audit on September 20, 1994. The audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project.

The goal of this audit is to provide Louisiana's legislators with reliable and independent information needed to determine whether state government is carrying out selected purchasing functions in an economical and efficient manner. The audit objectives were to determine the following:

- ♦ If state contracts result in the lowest prices, acceptable quality products, and timely delivery of goods;
- ♦ If state departments have the flexibility to purchase items outside of state contracts to obtain lower prices, better quality products, and more timely delivery of goods; and
- ♦ If the state has procedures to address problem vendors.

Managing State Contracts

The state does not track total statewide procurement expenditures in a usable format. As a result, Office of State Purchasing (OSP) cannot determine if state contracts are cost effective.

Certain aspects of state law and OSP policy may unnecessarily increase the cost of supplies, services, and major repairs. Preferences, exclusions, and exemptions are included in state law but may increase administrative costs and the price of state contracts. OSP's policy that restricts conditions under which agencies may purchase outside of state contracts may also increase costs.

OSP is not performing critical quality control functions associated with the state's purchasing system. These functions include supervising inventories of warehoused supplies; establishing and maintaining programs for the inspection, testing, and acceptance of supplies, services, and major repairs; and providing for an internal audit function.

Assessing Vendors' Performance

OSP does not effectively monitor the performance of vendors who do business with the state. OSP has no written policy or guidelines delineating at what point to address agencies' complaints against vendors or when to initiate proceedings against problem vendors. Without formal policies, OSP may not address vendor complaints in a fair, equitable, and prompt manner.

Purchasing Levels

Current purchasing limits have not kept pace with inflation. As a result, the purchasing power allotted to individual state agencies has eroded considerably. In addition, the current thresholds and bid requirements for small purchases result in unnecessary time and expense, which detracts from the other functions OSP could be performing.

Innovative Practices

As a part of this audit, we reviewed current literature regarding innovative procurement practices being experimented with by other governmental entities. We did not attempt to determine whether these practices would result in definite cost savings or increased efficiencies if implemented in Louisiana. We do, however, feel that these practices are worthy of consideration. The innovative procurement practices discussed in this report are as follows:

- ♦ Electronic data interchange,
- ♦ Purchasing schedules and catalogs,
- ♦ Credit card purchasing,
- ♦ Consortia purchasing, and
- ♦ Competitiveness measures.

Glossary

American Bar Association Model Procurement Code	The statutory principles and policy guidance developed by the policymaking body of the American Bar Association (ABA) for managing and controlling the procurement of supplies, services, and construction for public purposes. In addition, the code provides a set of ethical standards governing public and private participants in the procurement process.
Chief Procurement Officer	The Director of the Office of State Purchasing and the directors of purchasing of the departments that are exempt from central purchasing by Louisiana Revised Statute (LSA-R.S.) 39:1572.
Consortium	A contracting entity that can be local, regional, or national in operation; can be a for-profit enterprise or a not-for-profit purchasing organization qualified under 26 USC 501(c)(3).
Debarment	The disqualification of a person to receive invitations for bids or requests for proposals, or the award of any contract by any governmental body, for a specified period of time commensurate with the seriousness of the offense or the inadequacy of the performance.
Definite Quantity Contract	Fixed-price contract that is for a specified quantity of supplies or services.
Exclusion	Item or service to which the procurement code does not apply.
Exemption	Item or service that does not have to be obtained through the central purchasing office and/or does not have to conform to regulations of the Commissioner of Administration.
Indefinite Quantity Contract	Contract for an indeterminate amount of supplies or services to be furnished as ordered at established unit prices.

Integrated Statewide Information System	The state's new accounting and financial management system. The Integrated Statewide Information System (ISIS) implementation is scheduled to begin in April 1995.
Louisiana Procurement Code	LSA-R.S. 39:1551-1755 enacted to govern the state's procurement practices.
National Association of State Purchasing Officials (NASPO)	An organization made up of the purchasing officials of the 50 states. The organization's purposes are to improve the quality of purchasing and procurement, exchange information, and cooperate toward the more effective exercise of the procurement and supply functions to attain greater efficiency and economy in state administration.
Preference	An advantage in consideration for award of a contract granted to a bidder by reason of the bidder's residence, business location, origin of product offered, business classification, or other reason.
Procurement	Buying, purchasing, renting, leasing, or otherwise obtaining any supplies, services, or major repairs. Procurement also includes such functions as description of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration.
Southern Legislative Conference	An organization composed of the state legislatures and accompanying staffs of 16 southern states. These states are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.
State Contract	A contract entered into by the Office of State Purchasing for supplies or services that obligates Louisiana to order all actual, normal requirements of designated using agencies during a specified period of time, usually one year. Louisiana uses competitively bid contracts, for which agency use is mandatory, as well as brand name contracts, for which agency use is optional.

Suspension The disqualification of a person to receive invitations for bids or requests for proposals, or the award of a contract by the state, for a temporary period pending the completion of an investigation and any legal proceedings that may ensue because a person suspected upon probable cause of engaging in criminal, fraudulent, or seriously improper conduct or failure or inadequacy of performance that may lead to debarment.

Chapter One: Introduction

Audit Initiation and Objectives

This audit of selected purchasing practices was conducted by the Performance Audit Division of the Office of Legislative Auditor. The Legislative Audit Advisory Council approved the concept of this audit on September 20, 1994. The audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project.

The goal of this audit is to provide Louisiana's legislators with reliable and independent information needed to determine whether state government is carrying out selected purchasing functions in an economical and efficient manner. The audit objectives were to determine the following:

- ♦ If state contracts result in the lowest prices, acceptable quality products, and timely delivery of goods;
- ♦ If state agencies have the flexibility to purchase items outside of state contracts to obtain lower prices, better quality products, and more timely delivery of goods; and
- ♦ If the state has procedures to address problem vendors.

Report Conclusions

The state does not track total statewide procurement expenditures in a usable format. As a result, OSP cannot determine if state contracts are cost effective.

Certain aspects of state law and OSP policy may unnecessarily increase the cost of supplies, services, and major repairs. Preferences, exclusions, and exemptions are included in state law but may increase administrative costs and the price of state contracts. OSP's policy that restricts

conditions under which agencies may purchase outside of state contracts may also increase costs.

OSP is not performing critical quality control functions associated with the state's purchasing system. These functions include supervising inventories of warehoused supplies and establishing and maintaining programs for the inspection, testing, and acceptance of supplies, services, and major repairs.

OSP does not effectively monitor the performance of vendors who do business with the state. OSP has no written policy or guidelines delineating at what point to address agencies' complaints against vendors or when to initiate proceedings against problem vendors. Without formal policies, OSP may not address vendor complaints in a fair, equitable, and prompt manner.

Current purchasing limits have not kept pace with inflation. As a result, the purchasing power allotted to individual state agencies has eroded considerably. In addition, the current thresholds and bid requirements for small purchases result in unnecessary time and expense.

As a part of this audit, we reviewed current literature regarding innovative procurement practices being experimented with by other governmental entities. We did not attempt to determine whether these practices would result in definite cost savings or increased efficiencies if implemented in Louisiana. We do, however, feel that these practices are worthy of consideration. The innovative procurement practices discussed in this report are as follows:

- ♦ Electronic data interchange,
- ♦ Purchasing schedules and catalogs,
- ♦ Credit card purchasing,
- ♦ Consortia purchasing, and
- ♦ Competitiveness measures.

Overview

The basic elements of purchasing involve obtaining the proper equipment, material, supplies, and services needed to reach organizational goals. From a governmental standpoint, purchasing is defined as the procurement of an item or service of the proper utility that meets the needs of the jurisdiction, at the best price, from the most responsive and responsible bidder.

Procurement Code. The Louisiana Procurement Code (LSA-R.S. 39:1551 et seq.) was implemented on July 1, 1980. It is based on the American Bar Association's (ABA's) Model Procurement Code for State and Local Governments (MPC). The code's stated purposes are to:

- ◆ Simplify, clarify, and modernize the law governing procurement;
- ◆ Permit continued development of procurement policies and practices;
- ◆ Provide for increased public confidence in the procedures followed in public procurement;
- ◆ Ensure the fair and equitable treatment of all persons who deal with the procurement system;
- ◆ Provide increased economy in state procurement activities by fostering effective competition; and
- ◆ Provide safeguards for the maintenance of a procurement system of quality and integrity.

Exclusions from the Procurement Code. The procurement code applies to all expenditures of public funds, including federal assistance monies, with certain exceptions related to funding source. There are also certain exclusions that are not subject to the code. Appendix B lists these exclusions.

State Purchasing Office. The procurement code creates within the Division of Administration a central purchasing agency, the Office of State Purchasing (OSP). OSP is headed by the Director of State Purchasing (the director). The duties of the director are to:

- ◆ Procure or supervise the procurement of all supplies, services, and major repairs needed by the state;

- ♦ Exercise supervision over all inventories of warehoused supplies belonging to the state; and
- ♦ Establish and maintain programs for the inspection, testing, and acceptance of supplies, services, and major repairs.

Exemptions in the Procurement Code. The procurement code exempts from OSP authority certain expenditures of public funds by governmental bodies. However, these bodies are subject to the requirements of the procurement code and the regulations of the Commissioner of Administration. These exemptions are listed in Appendix C.

The procurement code also exempts from OSP authority and the regulations of the Commissioner of Administration certain expenditures of public funds by governmental bodies of the state. However, these bodies are still subject to the requirements of the procurement code and the regulations promulgated by the heads of these entities. These exemptions are also listed in Appendix C.

Competitive sealed bidding requirement. The procurement code states that unless otherwise authorized by law, all state contracts must be awarded by competitive sealed bidding. Areas otherwise authorized by law include preferences, sole-source purchases, and emergency purchases. A preference is an advantage in a contract award given for reasons such as the bidder's residence. Sole-source purchases are contracts awarded to the only known capable supplier. Emergency purchases are made without following normal purchasing procedures when there exists an imminent threat to the public health, welfare, safety, or public property under defined emergency conditions.

Small purchases. The procurement code requires that any procurement not exceeding the amount established by executive order be made in accordance with the provisions of the executive order by the governor. The current effective executive order for small purchases does not cover services as defined in the order. The executive order establishes the following bidding requirements for small purchases:

- ♦ Up to \$500: No competitive bidding is required.

- ♦ Over \$500 not to exceed \$2,000: Telephone quotations must be obtained from at least three bona fide, qualified prospective bidders.
- ♦ Over \$2,000 but less than \$5,000: Written invitations for bids must be sent to at least eight bidders.

Delegated purchasing authority. The director has established delegated purchasing authority limits for state agencies and departments. An agency may make purchases up to its delegated purchasing authority without routing the purchases through OSP. The small purchases executive order does not change the amount of these delegated purchasing authority limits, but it does include the bidding requirements mentioned previously.

State contracts. According to the Louisiana Administrative Code, state agencies must use state contracts unless given written exemption by the chief procurement officer. The administrative code lists two instances where state contract usage is not mandatory. These two instances are when:

- ♦ The chief procurement officer approves a finding that the supply or service available under the contract will not meet a non-recurring, special need of Louisiana; and
- ♦ Supplies are produced or services are performed incidental to Louisiana's own programs, such as industries of correctional institutions and other similar industries that can satisfy the need.

The small purchases executive order does not affect purchases from state contracts or policy and procedures memoranda of the Division of Administration.

The Administrative Code identifies two types of state contracts: definite quantity and indefinite quantity. Definite quantity contracts are for a specified quantity of supplies or services at a fixed-price. Indefinite quantity contracts are for an indefinite amount of supplies or services to be furnished as ordered at established unit prices. OSP primarily uses indefinite quantity contracts.

Scope and Methodology

This audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States.

Our work began in May 1994 and was completed in February 1995. We used financial data for the fiscal year ended June 30, 1994, to conduct most of our work. For our work on complaints and vendor performance, we used all information in the applicable vendor files, regardless of dates of documentation. We did not attempt to project the results of our work on sample complaints to the state taken as a whole. We focused our detailed work on the procurement of supplies, equipment, and major repairs by the 20 executive branch state departments, the Louisiana Health Care Authority (LHCA), and Prison Enterprises.

We reviewed state laws pertaining to the expenditures of public funds under any contract for supplies, equipment, or major repairs. We also reviewed the ABA's Model Procurement Code for State and Local Governments and Model Procurement Code for State and Local Governments-Recommended Regulations. We compared the Model Procurement Code to the Louisiana Procurement Code. We also examined OSP's State of Louisiana Purchasing Manual and the Louisiana Administrative Code as they relate to OSP.

We contacted the National Association of State Purchasing Officials, the National Institute of Governmental Purchasing, and the National Conference of State Legislatures to gain insight into the public sector's purchasing practices. To gain insight into the private sector's purchasing practices, we contacted the National Association of Purchasing Management. In addition, we surveyed the other 15 member states of the Southern Legislative Conference (see the glossary for a listing of these states).

We interviewed officials within the Division of Administration, OSP, the Attorney General's Office, the 20 executive branch state departments, LHCA, and Prison Enterprises. We also interviewed various legislative staff and the director of the Public Affairs Research Council, Inc. (PAR). We interviewed these officials to gain an understanding of their perspectives of state purchasing practices and to identify problems they have encountered with those practices.

Scope limitations. This was not an audit of all functions, activities, and operations of the Office of State Purchasing. Our scope did not include the purchase of services, including construction-related projects. These services were excluded because of time limitations. We also excluded colleges and universities because of time limitations and because data for colleges and universities were not readily available through OSP. We excluded the judicial and legislative branches of government because they are excluded from the provisions of the procurement code. Finally, we did not look for fraud and abuse in this audit.

Areas for Further Study

During the audit, we noted four areas that warrant further study. Time constraints did not allow us to pursue these issues. The legislature may wish to request additional study in the following areas:

- ♦ The procurement of professional, personal, consulting, and social services;
- ♦ The procurement practices of colleges and universities;
- ♦ The feasibility of using the Request for Proposal process instead of the Invitation to Bid process for purchases of technical equipment; and
- ♦ The efficiency and effectiveness of the current vendor protest process.

Report Organization

The remainder of this report is organized as follows:

- ♦ **Chapter Two** addresses contract management.
- ♦ **Chapter Three** addresses vendors' performance.
- ♦ **Chapter Four** addresses purchasing levels.

- ♦ **Chapter Five** addresses innovative purchasing practices.
- ♦ **Appendix A** contains a list of preferences included in the Louisiana Procurement Code.
- ♦ **Appendix B** contains a list of exclusions from the Louisiana Procurement Code.
- ♦ **Appendix C** compares exemptions in the ABA Model Procurement Code to the Louisiana Procurement Code.
- ♦ **Appendix D** contains the delegated purchasing authority limits for individual state departments and agencies.
- ♦ **Appendix E** contains the maximum delegated purchasing authority for the 50 states.
- ♦ **Appendix F** contains the survey instrument we sent to other Southern Legislative Conference states.
- ♦ **Appendix G** contains a summary of the survey responses.
- ♦ **Appendix H** contains a bibliography of magazine and newspaper articles used in this report.
- ♦ **Appendix I** contains OSP's responses to the audit.

Chapter Two: Managing State Contracts

Chapter Conclusions

The state does not track total statewide procurement expenditures in a usable format. As a result, OSP cannot determine if state contracts are cost effective.

Certain aspects of state law and OSP policy may unnecessarily increase the cost of supplies, services, and major repairs. Preferences, exclusions, and exemptions are included in state law but may increase administrative costs and the price of state contracts. OSP's policy that restricts conditions under which agencies may purchase outside of state contracts may also increase costs.

Finally, OSP is not performing critical quality control functions associated with the state's purchasing system. These functions include supervising inventories of warehoused supplies and establishing and maintaining programs for the inspection, testing, and acceptance of supplies, services, and major repairs.

Management Information System Is Incomplete

Louisiana Lacks Complete Statewide Procurement Data in a Usable Format

Louisiana lacks complete statewide procurement data. The state does not maintain data on total statewide procurement expenditures compiled in a usable format. Contract usage reports are incomplete and data on small purchases are not captured. Because pertinent data and information are not accumulated, OSP cannot make informed management decisions on statewide procurement issues.

The state does not maintain data on total statewide procurement expenditures compiled in a usable format. According to the June 30, 1993,¹ Comprehensive Annual Financial Report (CAFR) supplement, Louisiana spent

¹ We used the 1993 CAFR because the 1994 CAFR had not yet been issued at the time we did our cost compilation.

approximately \$1 billion on the procurement of supplies, equipment, and major repairs. However, the state cannot determine how much of these total expenditures are covered by the Louisiana Procurement Code or the authority of OSP.

Contract usage report. OSP state contract usage reports are incomplete. During the audit, we requested information on the usage of state contracts. OSP provided a report that contained all of the state contracts, contract numbers, and total dollar usage for each contract. We noted several problems with the contract usage report.

First, the report is not always updated in a timely manner. OSP provided us with a contract usage report dated August 9, 1994, showing total usage of \$186,772,650. This total represented 12 months of usage for all state contracts. When OSP staff discovered that this report was inaccurate, they provided us with a revised report. The revised report showed total usage of \$214,069,998 for this period, which is a difference of over \$27 million. According to the deputy director of OSP, the contract usage reports must be updated manually. Because the report has to be manually updated, it is not always updated on a timely basis.

Second, in addition to the inaccuracy of the data in the report, it contained incomplete data for agencies that do not use the Financial Accountability and Control System (FACS). FACS is the financial accounting system for the State of Louisiana. The director of OSP said that they have no contract usage information on the Department of Labor, the Department of Transportation and Development, vocational-technical schools, or colleges and universities because they are not on FACS. Thus, OSP does not have a complete total of state contract usage because it does not include complete information for agencies that do not use FACS.

Finally, the state contract usage report showed total usage for each contract. However, it did not contain a detail of usage by agency. OSP could not provide this information. Without data by agency, OSP cannot determine the extent of contract use by each agency to assist in management decisions.

Without complete data from all state agencies on their usage of state contracts, OSP cannot make informed decisions about which contracts to continue and which contracts to discontinue. Also, the state may not be in a position to take full advantage of volume buying because contract prices may not be negotiated for the best price for the most used items.

Small purchases. Small purchases data are not captured. Louisiana Revised Statute (LSA-R.S.) 39:1596 provides that procurements under the amount established by the governor's executive order may be made in accordance with the small purchase procedures prescribed in the executive order. Detailed data on these purchases are not captured by the state. Therefore, the purchases cannot be reviewed to determine if it would be cost effective to include some of these items on state contract.

The Division of Administration is in the process of implementing the Integrated Statewide Information System (ISIS). ISIS is the state's new accounting and information system. According to the Division of Administration, ISIS was designed to accomplish three things:

- ♦ Enhance financial management;
- ♦ Improve cash management; and
- ♦ Make the process easier for end-users.

The Advanced Government Purchasing System (AGPS), which is the ISIS module for procurement, will be the first phase of ISIS to be implemented. AGPS is scheduled to be implemented in April 1995. ISIS/AGPS should improve the information system for procurement but may not resolve all of the following problems:

- ♦ Statewide procurement data may still not be readily available because the Department of Labor, Department of Transportation and Development, state boards and commissions, and colleges and universities will not be on ISIS.
- ♦ Total state contract usage may still be incomplete because of the exclusion from ISIS of the above mentioned agencies.
- ♦ Small purchases data may still not be captured.

Recommendations

1. *The Division of Administration should ensure that complete procurement information for all state*

departments and agencies is available, including those on ISIS as well as those not on ISIS. Those agencies not on ISIS include the Department of Labor, Department of Transportation and Development, state boards and commissions, and colleges and universities. These data should include state contract usage as well as small purchases information. Capturing these data may involve modifications to ISIS/AGPS, which could be phased in over time.

2. OSP should use the contract usage data to evaluate the cost effectiveness of state contracts to determine which contracts to continue or discontinue. OSP should use the data on small purchases to determine if it would be cost effective to include some of these items on state contracts.

**No Periodic
Reviews of
Cost
Effectiveness**

**OSP Does Not Evaluate the Cost Effectiveness of
State Contracts**

OSP does not periodically evaluate the cost effectiveness of state contracts. OSP does not know the cost of awarding a state contract. Louisiana also has a large number of state contracts with a usage of \$50,000 or less. Because OSP does not evaluate state contracts, Louisiana may be using contracts that are not cost effective and could issue contracts that are not cost effective in the future.

Cost of state contracts. OSP does not know the cost of awarding a state contract. OSP also does not know the cost to issue a requisition or a purchase order against a state contract. OSP cannot quantify these amounts because the state does not track this information.

For OSP to effectively manage state contracts, it must know the costs associated with issuing a state contract and with processing the related documentation. Because OSP does not know these costs, it cannot determine if existing contracts should be renewed or at what dollar value of usage it is cost effective to issue new state contracts.

Number of state contracts. We interviewed purchasing personnel in each of the executive branch state departments about

the number of state contracts in Louisiana. Several agency purchasing officials told us that Louisiana has too many state contracts. They said that the high number of state contracts often makes it difficult and cumbersome for them to execute individual purchases. They said that the process is especially cumbersome if contracts contain numerous low dollar value items awarded to multiple vendors. Having numerous state contracts also greatly increases the workload of OSP's staff, who must solicit bids and award the contracts.

The time OSP spends administering state contracts detracts from other functions of the office. As described elsewhere in this report, OSP is not performing many of its other duties. These other duties are crucial to operating an effective and cost-efficient purchasing system, yet they are not being performed. If OSP conducted periodic cost effectiveness reviews on state contracts, the number of state contracts that OSP must administer could be reduced.

Contract usage. Louisiana has numerous state contracts with a usage of \$50,000 or less. We reviewed the state contract usage report to identify various levels of usage. Although it may be incomplete, we used this report for our analysis because OSP bases management decisions on it. We found that a number of contracts had relatively low usage.

More specifically, we found that on September 30, 1994, 217 of Louisiana's 498 total contracts, or 44 percent, had a total usage of \$50,000 or less. Ninety-nine of these contracts had been in effect for one year or more. One hundred one of these contracts had six months or less time remaining on the contract.

We reviewed the National Association of State Purchasing Officials (NASPO) criteria to determine what that organization recommends as an appropriate number of state contracts. We found that NASPO does not recommend that states maintain a specific number of state contracts. NASPO does, however, recommend that cost savings analyses be conducted to determine when volume buying is cost-effective. NASPO further states that, particularly for low-priced items, evaluations should be made in the following areas:

- ♦ Costs of procurements handled on either a spot or consolidated basis by the central purchasing office;**
- ♦ Savings resulting from eliminating repetitive bids and quotations; and**

- ♦ Overall costs of procurements made by user agencies through informal quotations.

NASPO says that by evaluating these items, the anticipated benefits associated with volume buying can be determined with reasonable accuracy.

We discussed contracts with usage of \$50,000 or less with officials at OSP. OSP said that its staff uses the state contract usage report to determine if annual contracts are justifiable. However, as previously mentioned, OSP also said it does not know the cost of awarding a state contract. Therefore, OSP cannot use the contract usage reports as a basis to determine whether contracts are cost effective. If contract usage is not tied to cost, OSP cannot determine when it is in the state's best interest to add or delete state contracts.

Recommendations

1. OSP should track all administrative costs associated with state contracts. These cost components should include the cost to issue a state contract, a requisition, and a purchase order.
2. OSP should use the cost information to routinely evaluate the cost effectiveness of state contracts. Contracts for which costs exceed their benefit to the state should be eliminated.
3. For low priced items, OSP should make cost evaluations in the three areas suggested by NASPO.

**State Contract
Prices May Be
Unnecessarily
High****Louisiana Law Contains Elements That May
Increase State Contract Prices**

The Louisiana Procurement Code and other sections of state law contain certain elements that may increase the prices of contracts for supplies, equipment, and major repairs. State law contains numerous purchasing preferences, exclusions, and exemptions. Preferences require OSP to choose a specific type of vendor over other vendors. Exclusions represent agencies or expenditure types for which the procurement code does not apply. Exemptions represent agencies or expenditure types for which the authority of OSP or both the authority of OSP and the regulations of the commissioner of administration do not apply. Preferences directly contradict two of the stated purposes of the procurement code, which are to ensure the fair and equitable treatment of all persons dealing with the state's procurement system and to increase economy by fostering effective competition. Exclusions and exemptions may not allow the state to fully realize the benefits of volume buying.

Preferences. The Louisiana Procurement Code and other sections of state law contain numerous purchasing preferences. A preference requires choosing a specific type of vendor over other vendors, based on the nature of the preference. Purchasing preferences are designed to lend state government support to Louisiana businesses, small businesses, and minority-owned businesses. However, preferences undermine the competitive intent of the procurement code.

The procurement code says that state contracts must be awarded to the lowest responsive and responsible bidders whose bids meet the requirements and criteria set forth in the invitations for bid. However, under the preference laws, contracts are awarded to certain "preferred" vendors who may not offer the lowest price. NASPO defines a preference as "an advantage in consideration for award of a contract granted to a bidder by reason of the bidder's residence, business location, origin of product offered, business classification, or other reason."

Some preferences add nothing to the cost of state contracts. This is because their only requirement is that the preferred vendors meet the lowest bid prices. Other preferences, however, can add as much as 10 percent to the cost of certain contracts. In these cases, the "preferred" vendors do not have to meet the lowest bid price. Instead, they are awarded contracts at higher prices.

Because cost information was not readily available, we could not quantify the total dollar impact preferences have on the state. We have, however, provided the percentage impact on state contract prices below. Preferences also add administrative costs to the procurement process because extra effort is needed to evaluate them. The primary preferences established in state law include the following:

- ♦ **Resident business preference:** This preference requires the state to buy from resident businesses as opposed to non-resident businesses when there is a tied bid and no sacrifice or loss in quality. This preference does not increase the cost of a state contract, but it may discourage some vendors from participating in the procurement process.
- ♦ **Preference for products grown or harvested in Louisiana:** This preference requires the state to procure Louisiana products if they do not exceed the cost of other products by **four or seven percent**, depending on the product. Thus, this preference can increase the cost of these contracts by up to either four or seven percent.
- ♦ **Preference for in-state vendors:** Under this preference, in-state vendors are given a preference in the same manner that any out-of-state vendors would be given on a comparative bid in their own state. This preference may increase the cost of state contracts, depending on the relevant preferences in other states.
- ♦ **Preference for goods manufactured by severely handicapped individuals:** This preference requires the state to purchase goods manufactured by severely handicapped individuals in state-operated and state-supported sheltered workshops. According to the deputy director of OSP, if an agency needs an item that is included in a catalog for goods manufactured by severely handicapped individuals, the agency is required to procure the item from a vendor in this catalog. This preference may increase the cost of items purchased.
- ♦ **Preference for Louisiana retailers:** Under this requirement, state purchasing agents must purchase items from retail dealers located in Louisiana, provided that costs do not exceed **five percent** of the

cost of out-of-state dealers. Thus, this preference can add up to five percent to contracts of this nature.

- ♦ **Preference for steel:** This preference requires purchasing agents to purchase steel rolled in Louisiana, provided that the cost does not exceed that of steel rolled outside the state by more than 10 percent. This type of preference can increase the cost of steel contracts by up to 10 percent.
- ♦ **Preference for minority business enterprise participation:²** This preference is referred to as the minority set-aside program. Under this preference, the minority business has the option to supply the commodities at the price of the otherwise lowest bidder. The preference requires that contracts be awarded to certified minority businesses when their bid prices are within a certain range of the otherwise lowest responsive and responsible bidder's price. Thus, there is no increase in cost per contract associated with this preference. However, this preference may discourage some vendors from participating in the procurement process.

More detailed information on the preferences that are included in the procurement code appears in Appendix A.

We reviewed preference cost information in the publication, *1994 NASPO State and Local Government Purchasing*, 4th Edition. This publication cited a 1986 study that found that "percentage preference laws significantly increase state expenditures over what would otherwise be expected by about 3 percent in real terms per capita." If this figure is accurate and it were applied to Louisiana's \$1 billion purchasing bill, it would result in a \$30 million impact. Please note that we have not audited or otherwise confirmed the accuracy of this information.

We obtained a copy of this study titled State Government Purchases in a Federalist Economy by Steven G. Craig and Joel W. Sailors of the Department of Economics at the University of Houston. The study was an empirical examination of purchasing preference laws, and it focused primarily on percentage preference laws. The authors employed an economic model to determine the impact of percentage preference laws in 13 states

² This program is not called a preference in the Louisiana Procurement Code. It is called a set-aside. We included it in our discussion of preferences because NASPO and OSP consider it to be a type of preference and LSA-R.S. 39:1960-61 give minority vendors preferential treatment.

that had percentage preference laws between 1965 and 1980. Those states are as follows:

- ♦ Alabama;
- ♦ Arizona;
- ♦ Arkansas;
- ♦ California;
- ♦ Colorado;
- ♦ Louisiana;
- ♦ Montana;
- ♦ New Mexico;
- ♦ North Dakota;
- ♦ Oregon;
- ♦ Washington;
- ♦ West Virginia; and
- ♦ Wyoming.

The authors concluded that percentage preference laws significantly increase real state expenditures by \$10.13 per person, or 3.0% of mean state expenditures. The authors also concluded that percentage laws have the following two effects:

- ♦ The low bidders from out-of-state have a perception that they are not winning contracts from the state.
- ♦ Because of this perception, out-of-state firms may not bid at all in the long-run, which may reduce competitive pressure on in-state firms and further increase costs.

We also compared Louisiana's preference laws to criteria established by NASPO. NASPO had the following comments about preferences:

- ♦ Preferences are generally inconsistent with impartiality in awarding public contracts.
- ♦ Preference accorded one class of vendors over all others strikes at the basic principles of public procurement, which are equity, impartiality, open competition, and the least cost to the taxpayer.

- ♦ Preference laws are made for political reasons, and the trade-off of anticipated socio-economic goals must be weighed against the adverse effect on other policies and goals, including excellence in public procurement.
- ♦ There have been strong indications of increased administrative costs and unnecessary limitations on competition as a result of preferences.
- ♦ Unrealized and unreasonable expectations attached to procurement preferences have resulted in frustration and criticism of procurement programs.
- ♦ Preference laws are inherently anti-competitive and should be eliminated.

We also compared Louisiana's preference laws to the ABA Model Procurement Code. We found that the ABA Model Procurement Code does not mention preferences at all.

To learn more about the rationale behind Louisiana's preference laws, we interviewed the Attorney General's representative on the Public Bid Study Commission. This individual is familiar with state procurement laws. He said that the preferences established in state law have no reason behind them. He indicated that they were derived as part of the political process. He further stated that there may actually be no justification for preferential percentages. Finally, this individual stated that, with a global economy, there may not be any economic benefit to Louisiana as a result of having these preferences.

We also interviewed the director of PAR, a not-for-profit public research organization, about Louisiana's preference laws. This individual is a former legislative fiscal officer and was instrumental in initiating the drafting of the Louisiana Procurement Code. According to this individual, there is no "rhyme or reason" to the percentages for preferences established in state law.

Because preferences give an advantage to particular classes of vendors, they contradict the intent to ensure the fair and equitable treatment of all persons dealing with the state's procurement system. In addition, preferences may hamper competition, thus diminishing increased economy in procurement activities. Furthermore, preferences may diminish the benefits of volume buying and competitive bidding. Preferences may be

unnecessarily costly without deriving the desired socio-economic benefits desired when the preferences were implemented.

Exclusions. Louisiana's procurement code contains several exclusions. An exclusion means that the procurement code does not apply to particular agencies or expenditures. Exclusions may not allow the state to fully realize the benefits of volume buying because all agencies or expenditures are not included for negotiations of state contracts. The exclusions in the Louisiana Procurement Code are as follows:

- ♦ Retaining and employment of lawyers;
- ♦ Procurement of professional, personal, consulting, and social services;
- ♦ Legislative and judicial branch agencies;
- ♦ Certain leased residential living options for mentally retarded or developmentally disabled persons;
- ♦ Certain purchases of state owned or operated hospitals;
- ♦ Purchases of any medical supplies and equipment from qualified group purchasing organizations; and
- ♦ Purchase of products or services from the blind.

These exclusions are discussed in more detail in Appendix B.

Exclusions from the procurement code may not allow the state to fully realize the benefits of volume buying. They may also result in duplication of effort and increased administrative costs for the state.

Exemptions. The Louisiana Procurement Code also contains numerous exemptions. An exemption means that a particular agency or expenditure type is not subject to the authority of OSP or is not subject to both the authority of OSP and the regulations of the Commissioner of Administration. Exemptions may not allow the state to fully realize the benefits of volume buying and may cause duplication of effort and increased administrative costs.

Exemptions from OSP's Authority. If an agency has an exemption from OSP, it does not fall under OSP's authority. In other words, the agency is not subject to oversight by OSP. The agency is, however, subject to the requirements of the procurement code and the regulations promulgated by the Commissioner of Administration. The exemptions from OSP

authority that are listed in the Louisiana Procurement Code are as follows:

- ♦ Louisiana State University System;
- ♦ Southern University System;
- ♦ Board of Trustees of State Colleges and Universities Systems;
- ♦ Vocational-technical schools, special schools, and other institutions under the supervision of the Board of Elementary and Secondary Education;
- ♦ Department of Education for items other than textbooks; scientific and laboratory equipment; and teaching materials, devices, and supplies; and
- ♦ State Bond Commission for printing only.

See Appendix C for a more detailed discussion of exemptions from OSP.

Exemptions from OSP and the regulations of the Commissioner of Administration. If an agency has an exemption from both OSP and from the regulations of the Commissioner of Administration, it means that the agency is not subject to oversight by OSP. In addition, the agency does not have to follow the purchasing regulations established by the Commissioner of Administration. The agency is, however, subject to the requirements of the procurement code and the purchasing regulations promulgated by the head of the agency. The exemptions from OSP authority and from the regulations of the Commissioner of Administration that are listed in the Louisiana Procurement Code are as follows:

- ♦ Department of Transportation and Development for procurement of materials and supplies that will become a component part of any road, highway, bridge, or appurtenance thereto;
- ♦ Department of Education for textbooks, scientific and laboratory equipment, and teaching materials, devices, and supplies;
- ♦ New Orleans Food Center Authority; and
- ♦ Louisiana Crawfish Market Development Authority.

See Appendix C for a more detailed listing of the exemptions from OSP and from the rules of the Commissioner of Administration.

Although the ABA Model Procurement Code lists certain exemptions to be considered by governmental entities, it ultimately suggests that there be no exemptions from central purchasing. The exemptions that exist in Louisiana may not allow the state to fully realize the benefits of volume buying. In addition, they may also result in duplication of effort and increased administrative costs.

Matter for Legislative Consideration

1. The legislature may wish to consider reviewing and updating various aspects of the procurement code and other areas of state law dealing with preferences, exclusions, and exemptions. Such a review would include consideration of all preferences to determine if they should be removed from state law. A review of exclusions and exemptions would include a determination of whether they should be limited to those absolutely necessary to maximize to the fullest extent practicable the purchasing value of public funds through competitive bidding and volume buying.

Procurement System Lacks Critical Quality Control Elements

Critical Quality Control Functions Are Not Performed

The state procurement system lacks critical quality control elements over the procurement of supplies, services, and major repairs. Currently, OSP does not perform many vital quality control functions. As a result, state agencies may purchase goods and commodities of inferior quality, which can be costly in terms of actual dollars as well as lost efficiency and effectiveness. In addition, OSP does not have any audit staff. Therefore, the

office cannot ensure agency compliance with purchasing laws and regulations on an on-going basis.

OSP has significantly fewer employees than it had 10 years ago. The office has experienced significant budget cuts over the past several years, resulting in a decreased staffing level. According to information provided by the agency, OSP had 92 positions in 1984 to perform the duties of the office. In 1994, OSP had 65 positions, which is a 29 percent reduction since 1984.

Although its staff has decreased significantly, the duties of the office have not changed. The Louisiana Procurement Code describes the duties of OSP. These duties were established, in part, to provide safeguards for the maintenance of a procurement system of quality and integrity. The duties of OSP as established by state law are to:

- ♦ Procure or supervise the procurement of all supplies, services, and major repairs needed by the state;
- ♦ Exercise supervision over all inventories of warehoused supplies belonging to the state; and
- ♦ Establish and maintain programs for the inspection, testing, and acceptance of supplies, services, and major repairs.

OSP is not currently performing all of its official duties. For instance, OSP does not exercise supervision over inventories. In addition, there are no programs for the inspection, testing, and acceptance of supplies, services, and major repairs.

Because OSP is not performing these vital functions, the quality of goods purchased may be lacking, and the purchasing value of state funds may be diminished. Purchasing officials in several state agencies did, in fact, complain about the quality of some products on state contract.

To determine the nature of complaints about quality, we reviewed complaints obtained from the state agencies. The list below contains examples of the types of quality-related problems we noted.

- ♦ Pairs of socks that were not the same size or length;
- ♦ Pens that leaked, leaving large blobs on the paper;
- ♦ Hand soap that was very harsh;

- ♦ Electric staplers that jammed and did not staple;
- ♦ Scissors that cut with half the blade;

In addition, in our interviews of agency purchasing officials, we were told of the following quality-related problems:

- ♦ "Off brand" items that may not be found in any office supply book; and
- ♦ Janitorial supplies that were not as strong as chemicals provided by local vendors and which had to be purchased in bulk, which created storage problems.

These types of complaints may have been avoided if OSP had an inspection and testing program. The addition of specification writers could also reduce the incidence of obtaining poor quality goods.

We also discussed the role of auditors in the procurement process with Division of Administration staff. According to the assistant commissioner of procurement, OSP needs auditors to review procurement operations at the state agency level. Auditors can also ensure agency compliance with purchasing laws and regulations on an on-going basis.

We reviewed the quality control elements of the ABA Model Procurement Code and criteria established by NASPO. According to the Model Procurement Code, one of the main duties of the state procurement office is to establish and maintain programs for inspection, testing, and acceptance of supplies, services, and major repairs. NASPO says it is important to have periodic and systematic reviews of procurement operations. Louisiana's procurement system does not have any of these critical quality control elements.

Recommendations

1. OSP should reallocate resources to ensure that the necessary quality control functions are performed. These functions include inspection; testing; and acceptance of supplies, services, and major repairs. If

other recommendations in this report are implemented, OSP should be able to reduce its administrative workload and increase its focus on these critical quality control functions.

2. The Division of Administration should ensure that compliance and operational audits are routinely conducted on purchasing operations.

Matter for Legislative Consideration

1. The legislature may wish to consider requesting a performance audit to determine if OSP's current staffing level and mix are sufficient to support an effective quality control function. Specific functions to be considered would include inspections, lab testing, and specification writers.

State Agencies Lack Purchasing Flexibility

State Agencies Lack Flexibility to Make Purchases Outside of State Contracts

State agencies in Louisiana lack flexibility to make purchases outside of state contracts. State agencies are allowed to buy items outside of state contracts if they can justify that state contract items do not fit their needs and if OSP approves the outside purchase. This restriction may result in agencies purchasing goods with higher prices, inferior quality, or untimely delivery.

Price. The state contract price is a firm price for both large and small agencies. Vendors who negotiate state contracts agree to supply agencies with the items contracted for at a certain price for the duration of the contract. In our interviews with agency purchasing officials, many told us that they could purchase some items that are on state contract cheaper by going outside of state contracts. According to OSP, however, one should look at the overall impact to the state to get a true

perspective of relative costs. It should be noted, however, that we have already pointed out that OSP cannot determine the cost effectiveness of state contracts.

Because of time constraints, we did not attempt to complete price comparisons for state contract items. We did, however, survey the 15 other member states of the Southern Legislative Conference about the flexibility they allow their agencies to purchase outside of established state contracts. We obtained completed surveys from 13 of the 15 states. Eight of these 13 states (62 percent) reported that they allow their agencies to purchase outside of state contracts to obtain better prices. These eight states are as follows:

- ♦ Arkansas;
- ♦ Georgia;
- ♦ Mississippi;
- ♦ Missouri;
- ♦ South Carolina;
- ♦ Texas;
- ♦ Virginia, and
- ♦ West Virginia.

We also discussed the prices of items on state contract in our interviews of agency purchasing officials. Nine out of 23 purchasing officials we interviewed (39 percent) cited price as a reason they would like to be allowed to purchase outside of state contracts. The most commonly cited items for which state contract prices were said to be more expensive than could be obtained outside of state contract were computers and office furniture. Computers are included in brand name contracts. Agencies are not required to use brand name contracts. Thus, agencies could, if they so desired, purchase computers outside of the established state contracts.

Because Louisiana does not allow agencies to purchase outside of state contracts to obtain lower prices, the state could be missing out on "opportunity buys." Agencies may be paying higher prices for some items than they could obtain by purchasing outside of state contracts.

Quality. One of the benefits of state contracts is that they take advantage of volume buying to obtain lower prices. However, the quality of items being purchased is also critical.

Buying poor quality goods can result in additional costs and lost efficiencies.

In our survey of other Southern Legislative Conference states, 4 of the 13 responding states (31 percent) said that they allow their agencies to purchase items outside of state contracts to obtain better quality goods. Those four states are as follows:

- ♦ Georgia;
- ♦ Mississippi;
- ♦ Texas; and
- ♦ Virginia.

We also reviewed a random sample of 25 complaints obtained from state agencies. We found that 6 of these 25 complaints (24 percent) related to quality of items purchased on state contract. In a previous finding, we noted in general terms some of the types of quality problems agencies experienced. These six specific complaints were as follows:

- ♦ Food delivered without inspection stamps;
- ♦ Improperly packaged canned drinks;
- ♦ Inferior work gloves;
- ♦ Ink pens that leaked;
- ♦ Inferior quality paper that jammed the copy and fax machines and had a poor appearance; and
- ♦ Adult disposable briefs that leaked.

Purchasing goods of inferior quality can be costly to the state. Increased costs can result in terms of both actual dollar costs and lost efficiencies. Purchasing quality goods and commodities is a critical component of a well-functioning purchasing program.

Delivery. OSP also said that delivery should be considered in any relevant comparisons. According to the Assistant Commissioner of Administration for Procurement, if an agency cannot have goods delivered in a timely manner, the price is irrelevant. Delivery periods are written into state contracts with the intent of giving the state assurance that goods ordered will be delivered within a certain time frame. However, we found problems with delivery of some state contract items.

According to our survey results, 6 of the 13 responding states (46 percent) said that they allow their state agencies to purchase outside of state contracts to obtain more timely delivery. These six states are as follows:

- ♦ Georgia;
- ♦ Mississippi;
- ♦ North Carolina;
- ♦ Texas;
- ♦ Virginia; and
- ♦ West Virginia.

We also determined how many of the 25 random complaints we reviewed related to delivery problems. We found that 18 of the 25 complaints (72 percent) involved complaints about delivery. In 12 of these 18 complaints (67 percent), none of the goods ordered had been delivered as of the date the complaints were written. For the complaints for which documentation was available, the average length of time from the order date to the date the complaint was written was 47.3 days. The time lags ranged from 18 days to 69 days.

The other six delivery complaints involved various other delivery problems. Some of these problems included not receiving all units ordered or receiving goods of a different description than was ordered.

Timely delivery of goods is a critical component of purchasing operations. When agencies do not receive goods ordered in a timely manner, they may not be able to provide services efficiently and effectively.

Exhibit 2-1 on the following page shows how the 13 southern states responded to our survey. The exhibit includes their responses on price, quality, and delivery.

Exhibit 2-1			
Justifications for Other Southern States to Purchase Outside of State Contracts			
State	Price	Quality	Timely Delivery
Alabama	N/A	N/A	N/A
Arkansas	Yes	No	No
Florida	No	No	No
Georgia	Yes	Yes	Yes
Kentucky	No	No	No
Mississippi	Yes	Yes	Yes
Missouri	Yes	No	No
North Carolina	No	No	Yes
South Carolina	Yes	No	No
Tennessee	N/A	N/A	N/A
Texas	Yes	Yes	Yes
Virginia	Yes	Yes	Yes
West Virginia	Yes	No	Yes
Total Yes	8	4	6
Source: Prepared by Legislative Auditor's staff using information obtained from responses to our survey of Southern Legislative Conference states, November 30, 1994.			
Legend: N/A: Not applicable.			

We were also told that Louisiana agency purchasing officials are discouraged from purchasing outside of state contracts by the current process. Thirteen of the 23 purchasing officials we interviewed (57 percent) admitted to buying items using state contracts *that did not meet their needs* because the justification process for purchasing outside of state contracts is too cumbersome. Other times, according to agency officials, agencies accepted inferior quality or poor delivery because the justification process was too cumbersome. Some of the comments we received from agency purchasing officials who said the process was too cumbersome were as follows:

- ♦ "It is not worth it. It is just too involved."
- ♦ "We rarely ask to be allowed to purchase outside of state contracts because the amount of documentation required to justify the need is not worth the effort."

- ♦ "We have never asked to go off state contract because it is too cumbersome to do the justification and because they [OSP] will more than likely say no."

If some agencies are reluctant to request permission to purchase items outside of state contract, they may be paying higher prices than are necessary. Furthermore, they may be unnecessarily accepting poor quality goods or goods that are not delivered on a timely basis, which can adversely impact operations and service delivery.

Recommendations

1. OSP should consider allowing price as justification to allow purchases outside of state contracts.
2. OSP should simplify and streamline the process for justifying an agency's need to purchase items outside of state contracts, especially as it relates to issues of quality and delivery.
3. OSP should clearly state the reasons agencies will be allowed to purchase items outside of state contracts. OSP should communicate this information to agency purchasing officials to ensure that they are aware of all reasons for which justification may be approved.
4. The Division of Administration should continue to study the benefits of consortia and Just-in-Time purchasing for some applications to alleviate delivery-related problems. These concepts are discussed in detail in Chapter Five.

Chapter Three: Assessing Vendors' Performance

Chapter Conclusions

OSP does not effectively monitor the performance of vendors who do business with the state. OSP has no written policy or guidelines delineating at what point to address agencies' complaints against vendors or when to initiate proceedings against problem vendors. Without formal policies, OSP may not address complaints against vendors in a fair, equitable, and prompt manner.

We could not locate documentation of OSP's response to several complaints against vendors. We also could not determine what action, if any, OSP took against several problem vendors. OSP's average response time for complaints we reviewed was 52 days. The average complaint resolution time for these complaints was 94 days.

Agency purchasing officials said that they often do not file complaints when they experience vendor problems because OSP does not address them. Without complete complaint documentation to refer to, OSP will not have all of the vendor information it needs for consideration when awarding future state contracts.

Vendor Performance Monitoring System Is Lacking

OSP Does Not Effectively Monitor Vendor Performance

OSP does not effectively monitor the performance of vendors who do business with the state. OSP has no written policy or guidelines delineating at what point to address agencies' complaints against vendors or when to initiate proceedings against problem vendors. In addition, OSP does not always follow up on complaints in a timely manner. Furthermore, agency purchasing officials said that they do not always report complaints against vendors. Because OSP does not effectively monitor vendor performance, vendors who provide substandard products or provide untimely delivery may continue to hold state contracts. Effective monitoring of vendor

performance is crucial to ensure the integrity, efficiency, and cost effectiveness of the state's procurement program.

Policy/guidelines. OSP has no written policy or guidelines delineating at what point it should address agencies' complaints against vendors. Instead, OSP uses an informal process to follow up on complaints. That process consists of complaint receipt from agency, vendor notification, vendor response, agency notification, and agency response.

If the complaint is not resolved, OSP advises the agency to procure the needed item outside of the applicable state contract. Any increase in cost is surcharged, or charged back, to the vendor. If the surcharge is not paid within 10 days, OSP holds a responsibility or debarment hearing. Responsibility hearings are conducted to determine if vendors have the capability to perform contract requirements. Debarment hearings are conducted to determine whether to disqualify vendors from future contract awards for specified lengths of time. OSP may also hold contract controversy hearings for vendors with multiple complaints or severe complaints, such as fraud or delivery of inferior products. This completes OSP's informal process.

OSP does not have a formal written policy or any guidance on how to proceed once complaints are received from agencies. Without formal policies, OSP may risk allowing the state to receive inferior products and untimely delivery of products without proper action being taken. In addition, OSP may not address complaints against vendors in a fair, equitable, and prompt manner.

OSP also has no written policy on when to initiate proceedings against problem vendors. The primary legal provision for dealing with problem vendors who hold state contracts is contained in the revised statutes, which describes the chief procurement officer's authority to suspend or debar a vendor. Suspension is the temporary disqualification of a vendor from conducting business with the state, pending an investigation that may lead to debarment. As previously defined, debarment is the disqualification of a vendor from doing business with the state for a specified period of time. The Louisiana Administrative Code describes the formal procedure for initiating the suspension or debarment process. It states that a written notice must be sent to a vendor who is a candidate for suspension or debarment. However, these legal provisions do

not provide guidance on when to initiate proceedings or what is to be done before their initiation.

State law gives the chief procurement officer broad discretion on when to initiate suspension or debarment proceedings. The causes for debarment are specified in law as follows:

- ◆ Convictions for certain contract-related offenses and convictions under certain state and federal statutes;
- ◆ Ethical violation under Chapter 15 of Title 42;
- ◆ Violation of contract provisions serious enough to justify debarment action; and
- ◆ Any other cause the chief procurement officer determines to be serious and compelling enough to affect responsibility as a state contractor.

To determine the extent of complaints filed and any action taken against vendors, we reviewed OSP's vendor/bidder files associated with the 25 complaints we received from state agencies. These complaints were directed at 20 different vendors. OSP could not provide the file for one of these vendors. For the remaining 19 vendors, we found a total of 164 complaints in the files, or an average of 8.6 complaints per vendor. Exhibit 3-1 on the following page shows the number of complaints on file for each of these 19 vendors.

As shown by Exhibit 3-1, nine vendor/bidder files contained no complaints, even though we had received complaints on these vendors from state agencies. Also, 14 of the 25 complaints (56 percent) were not in the vendor/bidder files. Since such a high percentage of complaints were not in OSP's files, the total number of complaints for these 19 vendors is likely to be higher than 164.

We also determined if any of the 19 vendors listed in the exhibit had been suspended or debarred. We found that one of these vendors had been suspended, and another one had been debarred. On June 1, 1994, Vendor #8 was suspended for six months for failure to replace items of an inferior quality that had been delivered to an agency. Vendor #16 was debarred for an indefinite period on April 10, 1992, for failure to appear at a debarment hearing. The hearing had been scheduled because goods ordered had not been delivered.

Exhibit 3-1	
Number of Complaints Found in OSP's Vendor/Bidder File for Sample Vendors	
Vendor	Number of Complaints
1	0
2	1
3	6
4	32
5	1
6	0
7	26
8	0
9	7
10	0
11	1
12	0
13	1
14	0
15	64
16	1
17	0
18	24
19	0
Total complaints	164
Average per vendor	8.6
Source: Prepared by Legislative Auditor's staff using information from OSP's vendor/bidder files.	

According to NASPO, an effective complaint follow-up procedure must include periodic file reviews. NASPO further states that when a certain number of complaints has accumulated within a given period of time, the vendor's record should be reviewed. NASPO suggests that formal guidelines be established requiring an automatic file review at this point to determine what

action should be taken. NASPO lists two items as appropriate actions to be taken:

- ◆ Visiting problem vendors to discuss performance; and
- ◆ Writing letters to problem vendors cautioning them against continued poor performance and stipulating suspension or debarment if the problems persist.

NASPO further says that once the central purchasing office determines that action should be taken against a problem vendor, it must decide the severity of action to be taken. Suspension and debarment are the most severe sanctions. According to NASPO, the central purchasing office should consider the following factors when deciding the severity of action to be taken against a problem vendor:

- ◆ Number of complaints;
- ◆ Nature and seriousness of complaints; and
- ◆ Vendors' cooperation in rectifying problem situations.

As previously noted, OSP does not have formal policies or guidelines in this area. Because OSP lacks clear policies and guidelines, it may be difficult to determine when action against vendors is necessary. In addition, OSP cannot ensure that problem vendors are addressed promptly and effectively. Furthermore, without standard policies, OSP cannot be sure that it is administering sanctions uniformly.

Complaints follow-up. OSP does not always follow up on agency complaints against vendors in a timely manner. In our review of 25 random complaints, we could not determine what action, if any, OSP had taken for several of the complaints. We also found that there were long delays before OSP initially responded to and fully resolved many of the complaints we reviewed.

More specifically, for 8 of the 25 complaints we reviewed (32 percent), we could not locate documentation of initial response by OSP. We also could not locate OSP's final resolution for 10 of these 25 complaints (40 percent). The lack of written policies on when to address problem vendors may be the cause of the documentation not being located.

To determine how promptly OSP responded to these agency complaints, we computed the time lags between the

dates the complaints were written and the dates OSP initially responded. The information needed to compute these time lags was available for 16 of the 25 complaints. For those 16 complaints, we found that the average time elapsed between the date the complaints were written and the date OSP initially responded was 51.8 days. In other words, on average, OSP did not respond for almost two months after these complaints were written. The shortest response time was one day. The longest response time was 246 days, or over 8 months.

We also determined how long it took OSP to fully resolve these 16 complaints. We located documentation supporting final resolution for 14 of the 16 complaints. We found that OSP took an average of 94.1 days, or 3 months, to fully resolve these 14 complaints. The shortest resolution time was 13 days. The longest resolution time was 420 days, or 14 months. The information on time lags is presented in Exhibit 3-2 on the following page.

Inaction by agencies. We also learned that agencies do not always file complaints when they experience problems with vendors. Many of the agency purchasing officials we interviewed said that they often do not file complaints when they experience vendor problems because OSP does not address them.

These agency officials expressed frustration over the lack of action by the central purchasing office. Several of them said that it is not worth the effort to fill out the complaint forms because nothing would be done to resolve the complaints. Three purchasing officials said that complaint forms were often sent to OSP, but OSP did not resolve the problems. Officials at two agencies were unaware that a standard complaint form existed.

ISIS/AGPS will provide an on-line complaints system. However, agencies may still be reluctant to enter complaints onto the system if they feel that the complaints will not be addressed. The on-line complaints system will not be effective if agencies do not use it.

If agencies do not file complaints when they experience problems with vendors, OSP has no way of knowing that those problems exist. Consequently, OSP may not initiate periodic file reviews to determine if action should be taken against those vendors. If these reviews are not done, the state may continue to do business with problem vendors.

Exhibit 3-2
Response and Disposition Times
for Sample Complaints

Complaint Number	Number of Days Between Date of Complaint and Date of OSP's Initial Response	Number of Days Between Date of Complaint and Date of OSP's Final Resolution
1	N/A	N/A
2	1	13
3	7	N/A
4	155	174
5	32	38
6	N/A	N/A
7	12	N/A
8	N/A	79
9	246	420
10	N/A	N/A
11	N/A	N/A
12	21	53
13	N/A	31
14	N/A	N/A
15	110	110
16	58	N/A
17	63	N/A
18	4	26
19	26	111
20	56	N/A
21	N/A	52
22	N/A	112
23	27	39
24	3	40
25	8	N/A
Average	51.8	94.1

Source: Prepared by Legislative Auditor's staff using information obtained from the Office of State Purchasing.

Legend: N/A = Documentation was not available, thus complaint was not figured into averages.

Recommendations

1. OSP should establish guidelines indicating that, when a certain number of vendor complaints have been received within a given period of time, the vendor's file will be reviewed for appropriate action. OSP should also set criteria for the severity of action to be taken and apply this criteria uniformly.
2. OSP should determine whether the complaints component of ISIS/AGPS will include the capability to centralize all complaints received from agency purchasing officials. If the system does not have this capability, OSP should implement other means of maintaining a central log. OSP should use this central log to ensure that all complaints are addressed in a timely manner.
3. OSP should establish formal time frames for following up on agency complaints against vendors. OSP should routinely compare actual response times to the established time frames to ensure that the guidelines are being followed.
4. OSP should work with agency purchasing officials to convince them that it will be worth their time and effort to file complaints.

Chapter Four: Purchasing Levels

Chapter Conclusions

Current purchasing limits have not kept pace with inflation. As a result, the purchasing power allotted to individual state agencies has eroded considerably.

Louisiana's maximum delegated purchasing authority is lower than in several other states. According to NASPO, there is a national trend towards delegating purchasing authority to agencies. In addition, thresholds and bid requirements for small purchases may result in excessive and unnecessary time and expense.

The current limits for purchasing authority and small purchases result in OSP handling more paperwork than may be necessary. This situation detracts from other critical functions OSP could be performing.

Current Purchasing Limits Are Questionable

Current Purchasing Limits Have Not Kept Pace With Inflation

Inflation has eroded the buying power of Louisiana's current purchasing limits. The maximum delegated purchasing authority is an amount under which individual state agencies may make purchases without obtaining approval from OSP. Each agency is allowed to make purchases without OSP's approval at some limit up to this maximum, which is \$5,000. This maximum was established in 1980 and has not been adjusted since that time. As a result, the purchasing power allotted to individual state agencies has eroded considerably because the purchasing limits have not kept pace with inflation.

The Louisiana Procurement Code allows OSP to grant each executive branch state agency a delegated purchasing authority for purchases of consumable items. The director of OSP may delegate these individual limits to agencies as deemed

appropriate. OSP authorizes these limits for the individual agencies based on the following factors:

- ♦ The size, experience, and qualifications of their purchasing staffs; and
- ♦ The size of and special requests from the agencies.

The current limits delegated to individual state agencies in Louisiana range from \$500 to the \$5,000 maximum. A detailed listing of state agencies and their delegated purchasing authority limits may be found in Appendix D.

Within the \$5,000 maximum delegated purchasing authority, there are also separate thresholds for small purchases that govern the type of purchasing procedures required. The governor established these thresholds in Executive Order No. EWE 92-53. Agencies do not have to obtain the approval of OSP when making small purchases within their individual limits. Instead, they abide by the provisions of the executive order. The current thresholds for small purchases are as follows:

- ♦ Up to \$500: No competitive bidding is required.
- ♦ Over \$500 not to exceed \$2,000: Solicitation may be made by telephone or facsimile quotations solicited from at least three prospective bidders.
- ♦ Over \$2,000 but less than \$5,000: Solicitation may be made by sending out written invitations to at least eight qualified bidders.

Effect of Inflation. Current purchasing levels in Louisiana have not kept pace with inflation. The maximum delegated purchasing authority was established in 1980. This amount has not been adjusted since that time.

We used price index measures to gauge the maximum delegated purchasing authority that was established in 1980 to today's dollars. By applying these inflation measures, we were able to estimate what dollar amount would be needed today to maintain the same real buying power that the maximum delegated purchasing authority provided in 1980. The inflation measures used in our analysis are as follows:

- ♦ **The Consumer Price Index, All Items Urban Consumers (CPI);**
- ♦ **The Implicit Price Deflator for Total Consumption Expenditures; and**
- ♦ **The Implicit Price Deflator of Government Purchases of Goods and Services, State and Local Government Purchases, Total.**

The CPI is a commonly reported measure of inflation. This index is the product of information compiled by the Bureau of Labor Statistics of the U.S. Department of Labor. It is based on information about the consumption of all items by urban populations.

The Implicit Price Deflator for Total Consumption Expenditures is the product of information compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce. It is reflective of the consumption component of the gross domestic product. Although it yields results that are close to the CPI, it is a broader measure of consumer price changes. *Therefore, it provides a more complete measure of consumer inflation than just the price changes of goods and services contained in the CPI.*

The Implicit Price Deflator of Government Purchases of Goods and Services, State and Local Government Purchases, Total is also the product of information compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce. It measures price changes in state and local purchases of goods and services, which is a subsector of the government purchases component of the gross domestic product. We included this measure in our analysis because it is oriented to government.

We asked the chief economist of the Legislative Fiscal Office to determine what the value of the state's maximum delegated purchasing authority would be if it had kept pace with inflation since 1980. Based on his analysis, we found that the original value of the maximum delegated purchasing authority has eroded considerably. The results of this analysis are as follows:

- ♦ **The CPI has increased 80.2 percent since 1980. Under this assumption, a maximum delegated purchasing authority limit of \$9,010 would be needed today to maintain the same real buying power that the \$5,000 level provided in 1980.**

- ♦ The Implicit Price Deflator for Total Consumption Expenditures has changed by 81.3 percent since 1980. Therefore, using this measure, a maximum delegated purchasing authority limit of \$9,065 would be needed today to maintain the same real buying power that the \$5,000 level provided in 1980.
- ♦ The Implicit Price Deflator of Government Purchases of Goods and Services, State and Local Government Purchases, Total has risen by 76 percent since 1980. This increase suggests that a maximum delegated purchasing authority limit of \$8,800 would be needed today to maintain the same real buying power that the \$5,000 level provided in 1980.

Exhibit 4-1 below shows this information in tabular format.

Exhibit 4-1		
Change in Purchasing Power of Maximum Delegated Purchasing Authority Using Three Assumptions		
Index Used	1980 Value	Level Needed Today
CPI	\$5000	\$9010
Total Consumption Expenditures	\$5000	\$9065
State/Local Government, Total	\$5000	\$8800
Source: Prepared by Legislative Auditor's staff using information provided by the Legislative Fiscal Office.		

Although the above analysis was done solely for the maximum delegated purchasing authority, it would yield similar results for the individual purchasing limits allotted to state agencies. The same would also hold true for the thresholds established in the small purchases executive order. The purchasing power of all of these limits has eroded considerably since they were originally established.

We interviewed purchasing officials in 20¹ executive branch state departments, the Louisiana Health Care Authority,

¹ We interviewed Corrections Services and Public Safety Services separately, although they are considered to be one executive branch department. This figure does not include the Department of Education, as most of their purchases are exempt from OSP.

and Prison Enterprises about their delegated purchasing authority limits. Officials in 16 agencies stated that their current delegated purchasing authority was too low and could be raised.² One of these agency officials stated that it takes three times as long for OSP to process a bid from start to finish than it does the agency. Officials in only six agencies said that they would not like to have their delegated purchasing authority limits increased, even if they obtained additional staff to handle the workload.

We also discussed the maximum delegated purchasing authority with the Assistant Commissioner of Administration for Procurement. He said that the maximum delegated purchasing authority could be raised to \$25,000. Current policy would allow OSP to delegate limits to individual agencies up to this amount based on the size, experience, and qualifications of the agency's purchasing staff.

Comparison to Other States. Louisiana's maximum delegated purchasing authority is lower than in several other states. We compared Louisiana's maximum delegated purchasing authority to the maximums in other states. According to NASPO's *State and Local Government Purchasing*, 4th Edition, 10 other states have a higher maximum delegated purchasing authority than Louisiana. These states and their maximums are as follows:

- ♦ Illinois: \$50,000
- ♦ California: \$10,000
- ♦ Delaware: \$10,000
- ♦ Florida: \$10,000
- ♦ Michigan: \$10,000
- ♦ New York: \$10,000
- ♦ North Carolina: \$10,000
- ♦ Ohio: \$10,000
- ♦ West Virginia: \$10,000

² Six of these agencies stated that they would need additional staff to handle the increased workload if the limits were raised. We did not do any work to substantiate this claim.

- ♦ New Jersey: \$8,000

We obtained information indicating that at least three other states have increased their maximum delegated purchasing authority above \$5,000 since the NASPO survey was published. Those states and their new maximums are as follows:

- ♦ Wyoming: \$7,500
- ♦ Oregon: \$25,000
- ♦ Texas: \$15,000

Therefore, according to the most recent information we could obtain, at least 13 other states (26.5 percent) have a higher maximum delegated purchasing authority than Louisiana. Appendix E contains a table listing the maximum delegated purchasing authority limits for all 50 states.

We extracted the information for the Southern Legislative Conference states from Appendix E. We found that 4 of the 15 other Southern Legislative Conference member states (27 percent) have a higher maximum delegated purchasing authority than Louisiana. Those states and their maximums are as follows:

- ♦ Texas: \$15,000
- ♦ Florida: \$10,000
- ♦ North Carolina: \$10,000
- ♦ West Virginia: \$10,000

We reviewed a performance audit report issued in June of 1993 from the state of Wyoming. This audit recommended the increase in delegated purchasing authority in that state. The Wyoming auditors gave the following reasons for their recommendation to increase the delegated purchasing authority:

- ♦ Processes for purchasing inexpensive items should not be overly cumbersome or complex without good reason. The auditors questioned at what point the costs of oversight and control wipe out potential savings that may be accomplished.

- ♦ According to NASPO officials, there is a national trend towards delegating purchasing authority to agencies. Many states are finding that this is the most efficient and effective method of carrying out purchasing activities and saving money.
- ♦ More flexibility is needed to achieve efficiency and savings. The need for centralization has been eclipsed by a need for more flexibility to achieve efficiency and savings. In the long run, the state's purchasing system can be made more cost effective if agency authority is increased and the central purchasing office takes on a new role as policy developer, overseer, and technical assistance provider.

We also reviewed a December 1994 report on procurement practices from the state of Texas. This report indicates that Texas has higher small purchase thresholds than Louisiana with less stringent purchasing procedures. According to this report, Texas has the following small purchases threshold requirements:

- ♦ Up to \$1,000: Must seek one verbal bid.
- ♦ Between \$1,000 and \$5,000: Must seek three verbal bids.
- ♦ Between \$5,000 and \$15,000: Must seek three written bids.

In our interviews of purchasing officials in state agencies, one agency official said that the \$500 small purchases threshold could be raised to \$1,000. We also discussed this issue with the Assistant Commissioner of Administration for Procurement. He stated that, in his opinion, the current thresholds for small purchases should be restructured. He said that the \$500 threshold should remain the same because the state plans to implement credit card usage for purchases up to \$500. (See Chapter Five for remarks on credit card purchasing.) No competitive bidding would be required for these purchases. He said the other two thresholds could be combined into one with a requirement for a minimum of three telephone bids from responsive and responsible bidders for purchases between \$500 and \$5,000.

The current delegated purchasing authority limits results in OSP handling more paperwork than may be necessary. This situation detracts from other critical functions OSP could be performing, such as maintaining inspection and testing programs, offering technical assistance, developing policy, and providing general oversight. In addition, the small purchases thresholds and associated purchasing requirements result in excessive and unnecessary time and expense incurred by agency personnel, who must solicit more bids than may be necessary.

Recommendations

1. OSP should review the maximum delegated purchasing authority and adjust it as needed to reflect the effects of inflation on real buying power.
2. OSP should also review the delegated purchasing authority limits allotted to individual state departments and agencies and make similar adjustments based upon inflationary trends. In doing so, OSP should continue to abide by its policy of considering the size, experience, and qualifications of agency purchasing staffs.
3. OSP should review the small purchase solicitation thresholds and related bid requirements and make a recommendation to the governor to modify Executive Order No. EWE 92-53. The modification should include a restructuring of the dollar amounts as well as simplification of the bid requirements. In making its recommendation to the governor, OSP should consider the potential impact of the credit card pilot program, which is discussed in Chapter Five.
4. OSP should establish a schedule to periodically review and evaluate the various purchasing levels and make adjustments as appropriate to reflect the effects of inflation.

Chapter Five: Innovative Practices

Chapter Conclusions

Innovative purchasing practices being experimented with by other governmental entities include electronic data interchange, purchasing schedules and catalogs, credit card purchasing, consortia purchasing, and competitiveness measures. Some of the savings cited by other states include the following:

- ♦ **Oregon saved \$21.5 million in prices paid for goods and services from its electronic data interchange system;**
- ♦ **Texas estimated savings of over \$20 million per year from its credit card program;**
- ♦ **Wisconsin estimated savings of about \$3 million per year from its credit card program.**

Some of these innovations are being considered by Louisiana. We did not attempt to determine whether these practices would result in definite cost savings or increased efficiencies if implemented in our state.

Introductory Comments

As a part of this audit, we reviewed current literature regarding innovative purchasing practices being experimented with by other governmental entities. The federal government as well as many state and local governments are implementing new purchasing strategies and techniques in an attempt to decrease costs and increase efficiencies. This chapter contains a summary of some of those practices. Appendix H contains a listing of the sources from which we obtained this information.

We were not able to validate all of the cost savings cited by other entities as a result of implementing these innovative practices. We also did not attempt to determine whether these practices would result in definite cost savings or increased efficiencies if implemented in Louisiana. We do, however, feel

that these practices are worthy of consideration. The innovative procurement practices discussed in this chapter are as follows:

- ♦ Electronic data interchange,
- ♦ Purchasing schedules and catalogs,
- ♦ Credit card purchasing,
- ♦ Consortia purchasing, and
- ♦ Competitiveness measures.

Electronic Data Interchange

Some States and the Federal Government Are Considering Electronic Acquisitions Systems

To combat increasing procurement costs and streamline the proposal submission process, some states have instituted electronic acquisitions systems. In Oregon, bid proposals are now distributed and processed electronically. California is conducting pilot studies using electronic data interchange. At the federal level, Congress promoted electronic procurement legislatively in its last session. Electronic data interchange (EDI) can help decrease the amount of paperwork in state agencies.

Oregon. According to literature, Oregon implemented an automated bidding system in January 1992. Bidders use their personal computers to call the state's Vendor Information System computer. Vendors can also use computers in chamber of commerce offices, libraries, and community colleges located throughout the state. The automated system allows vendors to register on-line with the state and to download Requests for Proposals (RFPs). Vendors also can access historical information, such as which vendor was awarded the last contract, which vendors did not receive an award, and the amount of the winning and losing bids.

The Oregon system cost less than \$400,000. This cost consisted of acquiring an IBM minicomputer and a public relations effort to sell the new way of doing business to the vendor community. According to the literature we read on this subject, Oregon covered its system's full cost in the first year.

The literature says that the system produced administrative savings and savings from increased competition. The savings from increased competition resulted because instant access to RFPs lead to an increased number of vendors bidding. In addition, vendors' access to historical information has improved the quality of their bids. According to the literature we read, increased competition resulted in millions of dollars in savings on the same products that had been purchased under the previous system.

The literature also discussed vendor satisfaction. To determine how vendors felt about the new system, Oregon placed an on-line survey onto the system in August 1993. Vendor feedback on the effectiveness of the system was positive.

We contacted an Oregon purchasing official and requested relevant cost savings information. Exhibit 5-1 below shows the cost savings that were quoted to us by this official.

Exhibit 5-1	
Savings Resulting From Implementation of EDI in Oregon	
January 1992 Through December 1993	
	Administration
\$95,788	Saved in paper, duplication, and postage
\$1.3 million	Saved in staff reductions and associated personnel costs
	Goods and Services
\$21.5 million	Saved over prices paid by the state last year
Source: Prepared by Legislative Auditor's staff using data obtained from Oregon.	

This official also told us that Oregon spends approximately \$182 million per year on the procurement of products and services through its EDI system. The savings of \$21.5 million represent 11.8 percent of total EDI purchases in Oregon. Using a conservative figure of \$214 million¹ for Louisiana's annual state contract purchases, this would equate to about \$25 million in savings if Louisiana were to convert to an

¹ \$214 million represents the state contract usage report total as of September 30, 1994.

EDI system. It should be noted that we did not audit or otherwise confirm this amount.

California. We also learned that California is in the research and development stage of EDI implementation. California has implemented several pilot projects to determine the benefits of electronic solicitation of goods and services. The literature estimates that California could save approximately \$330 million by using electronic solicitation. This figure is based on volume and the experience of the Oregon EDI system.

We contacted a California purchasing official about their EDI pilot projects. This official told us that they had found that vendors were not necessarily interested in the concept of EDI. They were simply interested in conducting business with the state in a less cumbersome fashion.

Federal government. Congress considered EDI through legislation in its last session. The Federal Acquisition Improvement Act was drafted to create a Federal Acquisition Computer Network within five years. The network would have allowed agencies to send out contract solicitations by computer and to conduct electronic auctions. Different versions of this bill passed both houses of Congress. The final bill, however, was not approved. According to literature, several agencies have implemented EDI development projects.

Perceived disadvantages. According to the literature we read about EDI, there are some perceived disadvantages associated with automated bidding systems. Despite its apparent advantages, some governments do not support the use of EDI in the procurement process. These governments cite the following reasons for not using EDI:

- ♦ Implementation may be costly.
- ♦ The EDI community may lack standardization.
- ♦ Small or disadvantaged firms may not have EDI networks in place.

Louisiana. We discussed the possibility of using EDI in Louisiana with officials in the Division of Administration and OSP. We were told that ISIS will ultimately have EDI capability, but it will not be immediately available. The ISIS project manager said that EDI capability will be fully functional in 1996.

These officials expressed concern that small vendors may not have personal computers from which to access the state's central system, thus putting them at a disadvantage. In Oregon, computers were placed in public facilities such as chambers of commerce, libraries, and community colleges to accommodate all vendors.

Purchasing Schedules and Catalogs

Some Governments Are Using Purchasing Schedules and Catalogs to Reduce Usage of State Contracts

Several national, state, and local entities are attempting to reduce their usage of state contracts by implementing purchasing schedules and catalogs. The potential benefits of using purchasing schedules and catalogs are that lower prices may be obtained and administrative costs may be reduced. According to literature we read on the subject, Texas and California have recently considered legislation that will directly affect the number of state contracts in use. Congress considered similar legislation in its last session.

California. According to the literature, the California legislation is called the Multiple Award Schedule. It is directly tied to the Federal General Services Administration (GSA) Schedules. GSA schedules are lists of pre-negotiated prices used by federal agencies to purchase items ranging from personal computers to office furniture. Under the California schedule, state agencies are allowed to purchase from vendors participating in the federal schedule under the same terms, conditions, and prices as found in the federal schedule, if the vendor is willing. State agencies can purchase up to \$250,000 in products using the federal schedule. This usage of federal purchasing schedules will reduce the state's usage of state contracts.

We spoke with a purchasing official in California about this new program. According to this official, the program was initiated in May 1994. California began by using contracts for information technology only. The state is now in the process of phasing in commodities contracts. The purchasing official also told us that it is too early to determine cost savings.

Texas. According to the literature, the Texas program is called the Texas Catalog. Under this system, vendors who wish to offer products to the state must apply to become Qualified

Information Systems vendors. The vendor must submit a catalog for review with its application. The catalog must include all products and services offered by the vendor, the list price, and the discounted price being offered to the state. Upon approval, the vendor must publish and maintain the catalog according to state regulations. Thus far, over 400 vendors have been approved to issue catalogs. Texas will continue state contracts that are currently in place but does not anticipate issuing new term contracts.

According to the literature we read about the Texas program, there are two primary drawbacks to the use of catalogs. First, smaller agencies without technical staff may have difficulty sorting through all product options. Also, the number of individual product catalogs that state agencies can purchase from and the difficulty in keeping the catalogs updated is perceived as potentially troublesome.

We contacted a purchasing official in Texas to discuss the literature we had read on their efforts in this area. This official told us that Texas began using catalogs in August 1993. She said that the catalogs allow the agencies to purchase directly from the vendors. She could not provide any cost savings information.

Federal government. In its last session, Congress considered legislation that would affect procurements in a number of ways. The legislation would have allowed all state and local governments to purchase goods and services from the federal GSA schedules. The idea was that by merging federal, state, and local customers into a large market, the already low prices of the federal schedules may drop even lower. Administrative costs for state and local governments might also have been reduced.

Louisiana. We discussed the use of federal schedules with officials at OSP. OSP said that it has been in contact with purchasing officials from other states concerning the federal schedules. OSP also said that it has considered this concept, but there will be costs involved. OSP said that it plans to follow future developments in this area.

Credit Card Purchasing

Some States and the Federal Government Use Credit Cards for Small Purchases

Some states and the federal government have allowed their agencies to use credit cards to make small purchases. Texas and Wisconsin are allowing their agencies to use credit cards for some purchases. The federal government allows its agencies to use credit cards at local retail stores to make purchases of items costing less than \$2,500. Credit card purchasing may result in lower administrative costs.

According to literature on the subject, "procurement cards," as they are called, are used for smaller purchases, with credit limits of between \$250 and \$5,000. These sources say that savings in labor, paper, mailing costs, and computer time are estimated to be in the millions of dollars. The literature further states that additional savings could be realized because states will be able to add up transactions at a given store and request volume discounts.

Texas. According to literature we read, Texas initiated a pilot program in 1993 in which approximately 100 employees were issued procurement cards. Specific controls limit an employee's spending to an amount per day, an amount per transaction, or a monthly total per agency. The cards can also be coded to restrict purchases at certain establishments, such as liquor stores.

We spoke with a purchasing official in Texas about its credit card program. According to this official, Texas began distributing the procurement cards to agencies in November 1993. The initial cost was \$300 for custom design printing. The agencies have two billing options. Under the first option, agencies receive monthly statements and have three days to pay. The agencies are billed a transaction fee in addition to the charges on the cards. The transaction fee is either \$1.25 or \$2.50, depending on the number of transactions. The second billing option is a 14-day transaction period with 14 days to pay. There are no transaction fees attached. The agencies are billed twice a month under this option.

According to the bid proposal we obtained from Texas, savings from its credit card program are estimated to be over \$20 million per year. This amount is based on the estimated cost of processing purchase orders and other paperwork. The estimates were based on payments for purchases of \$1,000 or less. The

Texas official we talked to said that actual cost savings were not available.

According to this official, Texas is estimated to have spent approximately \$1.7 billion for all purchases² in fiscal year 1994. For comparative purposes, we converted the figures given to us by Texas to potential savings in Louisiana. Using approximately \$1 billion for total purchasing expenditures for Louisiana, this would equate to nearly \$12 million in savings if Louisiana were to implement a credit card system, based on the Texas estimates. Please note that we did not audit or otherwise confirm this amount.

Wisconsin. We also learned that Wisconsin is considering the use of credit cards in its procurement system. We contacted a Wisconsin purchasing official and obtained the following information. Wisconsin plans to implement a pilot program in the very near future. State purchasing officials plan to use two universities and two different credit card companies in this pilot program. There is no cost for the pilot program, and state purchasing officials hope there will be no cost for the actual credit card program once it is implemented.

Wisconsin spends approximately \$700 million a year on purchases. Wisconsin estimates that the credit card program will save the state about \$3 million a year. We converted the savings cited by Wisconsin to potential savings for Louisiana. Using approximately \$1 billion in total expenditures for Louisiana, this would equate to nearly \$4.3 million in savings if Louisiana were to implement a credit card system, based on Wisconsin's estimates. We did not audit or otherwise confirm this amount.

Federal government. According to literature we read, government managers can now use credit cards to shop at local retail stores under a new federal law. Managers are allowed to buy items costing less than \$2,500 without going through a separate procurement bureaucracy. Agencies will be able to shop for the best values they can find. The current administration estimates that the government will save \$50 on every credit card purchase.

Louisiana. Louisiana is currently considering the use of credit cards for procurement of small items. The Division of Administration has heard a presentation from one credit card company and currently has the matter under consideration. The

² This figure does not include highway construction, consulting services, professional services, or universities.

biggest concern of officials in the division and at OSP is the controls that must be placed on the cards if they are to be put into use. The division plans to implement a credit card pilot program in the near future for purchases up to \$500.

Consortia Purchasing

Consortia Purchasing May Offer Increased Efficiencies

Another innovative practice currently being used is consortia purchasing. We identified one state that uses this type of purchasing. According to an official in this state, a consortium is defined as a contracting entity that operates on the principle of volume purchasing.

New York. We obtained a report on the use of consortia purchasing from the Division of Budget in the State of New York. According to this report, which was issued in April 1994, state agencies that use consortia are not required to buy a specific amount, as they are required to do for items on state contracts. Instead, agencies estimate their usage for a particular time frame, and the consortia base their bids on these estimates.

This report says that consortia may be local, regional, or national and may be for profit or not-for-profit entities. Some consortia require membership fees or dues, which may be quite expensive. However, consortia sometime waive the fee for states to attract their business.

The report further says that New York uses hospital consortia to purchase selected items as an alternative to state contracts. New York state law authorizes the Office of Mental Health and the Office of Mental Retardation and Developmental Disabilities to purchase all materials, equipment, and supplies for hospitals from hospital consortia.

The New York study was conducted to determine if the state should continue using its hospital consortia arrangement. The report contained the following findings:

- ♦ Consortia offer state facilities a wide variety of products, dosage, and package sizes. Users in New York found a significantly larger listing of available products and a much larger range of dosages, forms (i.e., tablets, vials, capsules, et cetera) and package sizes for drugs than are offered on state contract.

- ♦ Ease of use is equally as important as price in the decision to purchase from hospital consortia. Users in New York said that the consortia system saved administrative time and cost associated with soliciting bids.
- ♦ On a product-by-product basis, the difference between consortia and state contract prices is not significant. The study reviewed the prices of drugs, nutritional supplements, and medical supplies. There were no significant price differences in any of these categories.
- ♦ Not all consortia are alike. Price differentials can vary based on which products are purchased, the volume required, and the consortium providing the service.
- ♦ Consortia purchasing has, for the most part, been accommodated within established state procurement practices. The arrangement gives state contracts first preference, supplemented by hospital consortia. Users in New York buy from state contracts when they are available and use consortia when there is no state contract available.
- ♦ Evidence that consortia purchasing diminishes the state's volume discount is inconclusive. Data was not available to draw any conclusions in this area.
- ♦ Minority and women's business enterprises are not actively represented on either state or consortia contracts for medical supplies. Thus, the use of consortia does not impact the share of business allotted to these enterprises.

Louisiana. Louisiana is currently considering limited use of hospital consortia. State law allows state owned or operated hospitals to purchase medical supplies or medical equipment from qualified group purchasing organizations. The law stipulates that the Commissioner of Administration must determine that these purchases are in the best interest of the state.

The Division of Administration is considering using consortia for certain medical purchases as allowed by state law.

On September 27, 1994, the division issued a solicitation for offers for services of group purchasing organizations.

We reviewed the solicitation and noted that it is for medical supplies for state facilities. The solicitation is limited to one product area only and possibly one pilot facility to include all "Just-in-Time" medical supplies. Just-in-Time is a system whereby items ordered are delivered just in time to be used. Under this system, delivery periods are greatly reduced. Typically, delivery of goods occurs one to two days after the product is ordered. In contrast, the allowable delivery periods written into state contracts for medical supplies and equipment range from 2 to 30 days. Another advantage of Just-in-Time purchasing is that it reduces inventory levels and related costs.

The deadline for proposals for services of group purchasing organizations was January 9, 1995. The Division of Administration received six proposals. A group purchasing committee was formed and is in the process of examining and evaluating the six proposals. According to the chairman of this committee, the committee met January 31, 1995, to select proposals for oral presentations. The oral presentations should be completed by February 15. After the oral presentations, the division will make a recommendation on whether or not to use a hospital consortium for certain medical purchases.

We asked the chairman of the group purchasing committee about the proposals that were received. He stated that the responses were very noncommittal in terms of delivery time. He also said that, in terms of prices, he has compared groups to each other, but he has not compared any proposals to state contract prices. He said that comparing to state contract prices would be difficult because one must first ensure that similar items are being compared.

Competitiveness Measures

Some States Are Implementing Competitiveness Measures

Several states are looking for ways to make the procurement of goods and services more competitive. Some states have formed commissions or councils to review potential opportunities for improvement in competitiveness in state government purchasing.

As a part of the SECURE project, the Legislative Auditor's office conducted a separate study in this area. In that study, we learned that Texas has implemented a noteworthy program. Texas has created the Council on Competitive Government, which conducts comprehensive studies on how to provide functions and services in the most cost-effective manner. Under the Texas program, state agencies and private providers bid against each other for contracts to provide needed functions or services. The council then weighs and compares all cost components of the bids submitted. In addition to price, the council considers performance and other criteria to determine which party will be awarded the contract.

An interesting element of the Texas system is that the Council on Competitive Government is exempt from all state purchasing laws and regulations. The council may negotiate with potential providers for the best overall package for the state. Please refer to our separate staff study on competitiveness measures for more detailed information on this subject.

Louisiana. Currently, Louisiana does not have a council or commission on competitiveness to study potential applications.

Recommendation

1. OSP should continue to explore the potential benefits that the following practices may provide for the state:
 - ♦ Electronic data interchange,
 - ♦ Purchasing schedules and catalogs,
 - ♦ Credit card purchasing,
 - ♦ Consortia purchasing, and
 - ♦ Competitiveness measures.

Appendixes

Appendix A Preferences in the Louisiana Procurement Code

Type of Preference	Description	Amount of Preference
Products Produced, Grown, or Harvested in Louisiana	Produce grown, canned, processed or frozen or is harvested in Louisiana.	7 %
	Eggs laid in Louisiana.	7 %
	Beef, veal, pork, mutton, poultry, and other meats, and products made from those meats which are processed in Louisiana from animals which are alive at the time they enter the processing plant.	7 %
	Fish, shrimp, oysters, crabs, underutilized species, and other seafood which are harvested in Louisiana seas or Louisiana waters or harvested by a person who holds a valid appropriate commercial fishing license issued by the Department of Wildlife and Fisheries.	7 %
	Domesticated catfish processed in Louisiana from animals which were grown in Louisiana.	7 %
	All other types of materials, supplies, equipment, provisions, and products which are produced, manufactured, or assembled in Louisiana.	7 %
	Meat and meat products which are processed in Louisiana under the grading and certification service of the Louisiana Department of Agriculture and which are equal in quality to other meat and meat products.	4 %
	Domesticated catfish processed in Louisiana but grown outside of Louisiana and which is equal in quality to domesticated catfish processed outside of Louisiana.	4 %
	Produce processed in Louisiana but grown outside of Louisiana and which are equal in quality to produce processed and grown outside of Louisiana.	4 %
	Note: "Processed" means altered from its original state by cutting, slicing, or dicing the product.	

Type of Preference	Description	Amount of Preference
Contractors	Awarding of contracts by any public entity gives preference to in-state vendors over out-of-state vendors, except contracts for the construction, maintenance, or repair of highways and streets, and contracts financed in whole or in part by contributions or loans from any agency of the United States Government.	In the same manner that the out-of-state vendors would be given on a comparative bid in their own state.
Rodeos and Livestock Shows	Awarding of contracts for public work by any public entity, except contracts financed in whole or in part by contributions or loans from any agency of the United States Government, gives preference to contractors domiciled in Louisiana over contractors domiciled in other states that give a preference to contractors domiciled therein over contractors domiciled in Louisiana for the same type of work.	In the same manner and on the same basis and to the same extent that the out-of-state contractors would be given in their own state.
Rodeos and Livestock Shows	Services to organize or administer rodeos and livestock shows, where state-owned facilities will be used to house or contain such activities provided such services are equal in quality.	5 %
Goods and Services of Handicapped	Goods manufactured and services performed by severely handicapped individuals in state-operated and state-supported sheltered workshops.	Unspecified
In-State Retail Dealers*	Items purchased from a retail dealer located in the state. These items must be equal in quality to items purchased from a retail dealer located outside the state. Retailers domiciled in Louisiana are to be granted the same preference over retailers domiciled in another state that gives preference to retailers domiciled therein with a preference over retailers domiciled in Louisiana.	5 %
Steel	Steel rolled in Louisiana which is equal in quality to steel rolled outside of the state.	10 %

* To qualify for the preference, a retailer must show that he/she paid Louisiana corporate income, corporate franchise, and inventory taxes or any combination thereof during the previous 12-month period.

Appendix B

Exclusions From the Louisiana Procurement Code

1. Retaining and employment of lawyers.
2. Procurement of professional, personal, consulting, and social services.
3. Purchase of products or services from the blind.
4. Legislative and judicial branches of state government or any agency within the legislative branch.
5. **The Office for Citizens with Developmental Disabilities in the Department of Health and Hospitals is exempt from LSA-R.S. 39:1643 to lease residential living options for mentally retarded or developmentally disabled individuals without carrying out the competitive sealed bidding requirement.**
6. **Hospitals owned or operated by the state for the purchase of supplies, materials, and equipment from a qualified group purchasing organization if the Department of Health and Hospitals, with the concurrence of the Division of Administration, has determined that the cost is less than the state procurement prices, and that it is in the best interest of the state to purchase the supplies, materials, and equipment from the qualified group purchasing organization.**
7. **Purchase of any medical supplies or medical equipment from a qualified group purchasing organization if the Commissioner of Administration has determined that it is in the best interest of the state to purchase the medical supply or medical equipment from the qualified group purchasing organization.**

Appendix C

Exemptions in ABA Model Procurement Code as Compared to the Louisiana Procurement Code

Exemptions in American Bar Association's Model Procurement Code for State and Local Governments	Exemptions in Louisiana Procurement Code (LSA-R.S. 39:1551 et seq.)
<ul style="list-style-type: none"> ◆ Bridge, highway, or other heavy or specialized construction ◆ Works of art for museum or public display ◆ Published books, maps, periodicals, technical pamphlets ◆ Defined architect-engineer and land surveying services 	<ul style="list-style-type: none"> ◆ Inmate canteens and employee commissary of the Louisiana State Penitentiary ◆ From central purchasing and regulations of the Commissioner of Administration: <ul style="list-style-type: none"> ◆ Materials and supplies purchased by Department of Transportation and Development that will become part of a highway, road, bridge, et cetera. ◆ Textbooks and scientific and laboratory equipment, teaching materials, teaching devices, and teaching supplies procured by the Department of Education. ◆ New Orleans Food Center Authority ◆ Louisiana Crawfish Market Development Authority ◆ From central purchasing only: <ul style="list-style-type: none"> ◆ Louisiana State University System ◆ Southern University System ◆ Board of Trustees of State Colleges and Universities System ◆ Vocational-technical schools, special schools, and other institutions under the Board of Elementary and Secondary Education ◆ Items other than textbooks and scientific and laboratory equipment, teaching materials, teaching devices, and teaching supplies procured by the Department of Education.

Source: Prepared by Legislative Auditor's staff using the ABA Model Procurement Code and the Louisiana Procurement Code.

Appendix D

Delegated Purchasing Authorities for State Departments and Agencies

Department/Agency	Authority
Administration, Division of	
Flight Maintenance	\$2,000
Information Resources, Office of	2,000
Law Enforcement, Louisiana Commission on	500
Louisiana Federal Property Control	500
Louisiana Property Assistance Agency	2,000
Military Department	2,000
Patients' Compensation Fund	1,000
Printing and Forms Management	1,000
Regents, Board of	500
Risk Management, Office of	500
State Buildings and Grounds	2,000
State Land Office	500
Student Financial Assistance, Office of	500
Telecommunications Management, Office of	5,000
Agriculture and Forestry	5,000
Civil Service	500
Culture, Recreation and Tourism	2,000
Culture Development	2,000
Film and Video, Office of	1,000
Lieutenant Governor's Office	2,000
State Library	1,000
State Museum	1,000
State Parks, Office of	1,000
Tourism, Office of	1,000
Economic Development	2,000
Certified Public Accountants, State Board of	500
Contractors, State Licensing Board for	1,000

Department/Agency	Authority
Economic Development (Cont'd)	
Cosmetology, State Board of	\$500
Financial Institutions, Office of	500
Racing Commission	500
Elections and Registration	3,000
Board of Election Supervisors	3,000
Environmental Quality	5,000
Health and Hospitals	2,000
Central Louisiana State Hospital	2,000
Chabert, Leonard J. Medical Center	3,000
Columbia Developmental Center	2,000
Conway, E. A. Medical Center	2,000
East Louisiana State Hospital	2,000
Feliciana Forensic Facility	3,000
Greenwell Springs Hospital	3,000
Kemp, Lallie Regional Medical Center	2,000
Leesville Developmental Center	3,000
Long, Earl K. Memorial Hospital	3,000
Long, Huey P. Regional Medical Center	2,000
Metropolitan Developmental Center	2,000
Moss, Dr. Walter Olin Regional Medical Center	2,000
New Orleans Adolescent Hospital	2,000
New Orleans Home and Rehabilitation Center	500
Northwest Louisiana Developmental Center	3,000
Optometry Examiners, State Board of	500
Peltier-Lawless Developmental Center	1,500
Pinecrest Developmental Center	3,000
Ruston Developmental Center	2,000
Southeast Louisiana Hospital	2,000
Southwest Louisiana Developmental Center	3,000
University Medical Center	3,000

Department/Agency	Authority
Health and Hospitals (Cont'd)	
Villa Feliciana Chronic Disease Hospital	\$500
Washington-St. Tammany Regional Medical Center	2,000
Insurance	3,000
Justice	3,000
Labor	5,000
Natural Resources	5,000
Public Safety and Corrections	5,000
Public Service Commission	500
Revenue and Taxation	2,000
Secretary of State	3,000
Social Services	5,000
Transportation and Development	5,000
Professional Engineers and Land Surveyors, State Board of Registration for	500
Sabine River Authority	5,000
Treasury	3,000
School Lunch Employees' Retirement System	500
State Employees Group Benefits Program	3,000
State Employees' Retirement System	500
Teachers' Retirement System of Louisiana	500
Wildlife and Fisheries	3,000
Other Agencies	
Educational Television Authority	3,000
Hammond Area Technical Institute	2,000
Louisiana School of Math, Science, and the Arts	2,000
Louisiana Systemic Initiatives Program	2,000
LUMCON - Louisiana Universities Marine Center	3,000
Notarial Archives, Louisiana	500
State Law Institute	500
Visually Impaired, School for the	2,000

Source: Prepared by Legislative Auditor's staff using information provided by the Office of State Purchasing.

Note 1: Institutions of higher education have \$100,000 purchasing authority for data processing equipment.

Note 2: Within each department, the purchasing authority may vary among the department's individual agencies. The agencies' purchasing authorities may also differ from the department's purchasing authority.

Appendix E

Maximum Delegated Purchasing Authorities for 50 States

State	Authority
Illinois	\$50,000
California	\$10,000
Delaware	\$10,000
Florida	\$10,000
Michigan	\$10,000
New York	\$10,000
North Carolina	\$10,000
Ohio	\$10,000
West Virginia	\$10,000
New Jersey	\$8,000
Alaska	\$5,000
Arizona	\$5,000
Arkansas	\$5,000
Indiana	\$5,000
Louisiana	\$5,000
Maryland	\$5,000
Minnesota	\$5,000
Nevada	\$5,000
Pennsylvania	\$5,000
Texas*	\$5,000
Virginia	\$5,000
Wisconsin	\$5,000
Hawaii	\$4,000
Connecticut	\$3,000
Georgia	\$3,000

State	Authority
Oklahoma	\$2,500
Oregon*	\$2,500
South Carolina	\$2,500
Washington	\$2,500
Kansas	\$2,000
Missouri	\$2,000
Montana	\$2,000
Wyoming*	\$1,500
Utah	\$2,000
Colorado	\$1,000
Kentucky	\$1,000
Maine	\$1,000
Massachusetts	\$1,000
Rhode Island	\$1,000
South Dakota	\$1,000
Tennessee	\$1,000
Idaho	\$500
Iowa	\$500
Mississippi	\$500
New Mexico	\$500
North Dakota	\$500
Vermont	\$500
Alabama	\$500
Nebraska	\$100
New Hampshire	\$100
* These three states increased their maximum after the NASPO survey was completed. The new maximums are \$15,000 for Texas; \$25,000 for Oregon; and \$7,500 for Wyoming.	
Source: Prepared by Legislative Auditor's staff using Table 7 in the 1994 NASPO <i>State and Local Government Purchasing</i> , 4th Edition.	

Appendix F

Survey Instrument of Other Southern
Legislative
Conference States

STATE OF LOUISIANA - OFFICE OF LEGISLATIVE AUDITOR
Survey of Indefinite-Quantity State Contracts

State/Agency Name: _____

Person Completing Survey: _____

Title: _____ Phone: () _____

Address: _____

1. Are agencies in your state mandated to use indefinite-quantity state contracts for the purchase of supplies, equipment, and major repairs?

Yes No If yes, is this mandated by: Statute or Regulation or
 Operating Procedure?

If no, please go to question 4.

2. Under certain circumstances can agencies in your state be exempted from using established indefinite-quantity state contracts for the purchase of supplies, equipment, and major repairs?

Yes No If yes, are these exemptions granted by: Statute or Regulation
 Operating Procedure?

If yes, please provide a copy of the relevant authority. If no, please go to question 4.

3. Agencies can be exempted from using established indefinite-quantity state contracts because of: (Please check all that apply.) Price Quality Timely Delivery Agency Needs Not Met Other (Please specify) _____

4. Are vendors given the right to a hearing before being suspended or debarred in your state?

Yes No If yes, is this right granted by: Statute or Regulation or
 Operating Procedure?

If yes, please provide a copy of the relevant authority.

5. Does your central procurement office have the authority to suspend or debar a vendor?

Yes No If yes, is this authority granted by: Statute or Regulation or
 Operating Procedure?

If yes, please provide a copy of the relevant authority. If no, please go to question 8.

6. Does your central procurement office have written guidelines on when to initiate suspension or debarment proceedings?

Yes No

If yes, please provide a copy of these guidelines.

7. If a vendor is suspended or debarred for inadequate performance regarding a particular contract item, is that vendor also debarred from selling other contract items to the state?

Yes No

8. What is the authority to suspend or debar a vendor for one particular contract item?

Statute Regulations Contract Terms Other (Please Specify) _____

Please provide a copy of the relevant authority.

STATE OF LOUISIANA - OFFICE OF LEGISLATIVE AUDITOR
Survey of Indefinite-Quantity State Contracts

9. If you answered yes to question number 7, what is the authority that allows your state to suspend or debar a vendor from all contract items?
 Statute Regulations Contract Terms Other (Please Specify) _____

Please provide a copy of the relevant authority.

10. The common duration (term) of your indefinite-quantity state contracts for personal computers is: (Please check all applicable.) 3 Months 6 Months 1 Year Other.
If other, please specify. _____

11. Would you like to receive a copy of our audit report?
 Yes No

Thank You For Your Response. Please return this survey by November 4, 1994 to:
Stephen Toney, Senior Performance Auditor; Louisiana Office of Legislative Auditor;
Post Office Box 94397; Baton Rouge, Louisiana 70804-9397;
PHONE: (504) 339-3835 or FAX: (504) 342-3716

Appendix G

Survey Responses

Appendix G

Survey Responses

1. Are agencies in your state mandated to use indefinite-quantity state contracts for the purchase of supplies, equipment, and major repairs?

Yes	13	100.0%
No	0	0.0%
Did not respond	0	
	13	100.0%

If yes, is this mandated by:

	Yes	No	Did not respond	Total
Statute	9	3	1	13
Regulation	2	10	1	13
Operating Procedure	2	10	1	13

2. Under certain circumstances can agencies in your state be exempted from using established indefinite-quantity state contracts for the purchase of supplies, equipment, and major repairs?

Yes	11	84.6%
No	2	15.4%
Did not respond	0	
	13	100.0%

If yes, are these exemptions granted by:

	Yes	No	Did not respond	Total
Statute	7	3	3	13
Regulation	4	6	3	13
Operating Procedure	1	9	3	13

3. Agencies can be exempted from using established indefinite-quantity state contracts because of: (Please check all that apply.)

	Yes	No	Did not respond	Total
Price	8	3	2	13
Quality	4	7	2	13
Delivery	6	5	2	13
Needs not met	6	5	2	13
Other	4	7	2	13

4. Are vendors given the right to a hearing before being suspended or debarred in your state?

Yes	10	76.9%
No	3	23.1%
Did not respond	0	
	<u>13</u>	<u>100.0%</u>

If yes, is this right granted by:

	Yes	No	Did not respond	Total
Statute	3	6	4	13
Regulation	4	5	4	13
Operating Procedure	3	6	4	13

5. Does your central procurement office have the authority to suspend or debar a vendor?

Yes	13	100.0%
No	0	0.0%
Did not respond	0	
	<u>13</u>	<u>100.0%</u>

If yes, is this authority granted by:

	Yes	No	Did not respond	Total
Statute	7	5	1	13
Regulation	5	6	2	13
Operating Procedure	3	8	2	13

6. Does your central procurement office have written guidelines on when to initiate suspension or debarment proceedings?

Yes	10	76.9%
No	3	23.1%
Did not respond	0	
	13	100.0%

7. If a vendor is suspended or debarred for inadequate performance regarding a particular contract item, is that vendor also debarred from selling other contract items to the state?

Yes	9	69.2%
No	3	23.1%
Did not respond	1	7.7%
	13	100.0%

8. What is the authority to suspend or debar a vendor for one particular contract item?

	Yes	No	Did not respond	Total
Statute	2	9	2	13
Regulation	6	5	2	13
Contract Terms	3	8	2	13
Other	5	7	1	13

9. If you answered yes to question number 7, what is the authority that allows your state to suspend or debar a vendor from all contract items?

	Yes	No	Did not respond	Total
Statute	5	5	3	13
Regulation	6	4	3	13
Contract Terms	0	10	3	13
Other	2	9	2	13

10. The common duration (term) of your indefinite-quantity state contracts for personal computers is: (Please check all applicable.)

	Yes	No	Did not respond	Total
3 Months	0	10	3	13
6 Months	1	9	3	13
1 year	9	1	3	13
Other	4	6	3	13

11. Would you like to receive a copy of our audit report?

Yes	9	69.2%
No	2	15.4%
Did not respond	2	15.4%
	<u>13</u>	<u>100.0%</u>

Appendix H

Bibliography of Magazine and Newspaper Articles

James, Fred, "Fed GSA May Open to State and Local," Government Technology, October 1994, pp. 1, 44-45.

Keating, Michael, "Plugging Into Electronic Data Interchange," Government Procurement, January 1994, p. 8.

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"Streamlined Federal Procurement," Government Financial Management Topics, Vol. XXXIII, No. 8, October 1994, p. 8.

"Uncle Sam Issues Credit Cards," The Advocate, October 14, 1994, p. 6A, cols. 1-2.

Appendix I

Agency Responses



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF STATE PURCHASING

EDWIN W. EDWARDS
GOVERNOR

RAYMOND J. LABORDE
COMMISSIONER OF ADMINISTRATION

February 8, 1995

Mr. Daniel G. Kyle, PhD., CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

**RE: Selected State Purchasing Practices Audit
Office of State Purchasing**

Dear Mr. Kyle:

The Office of State Purchasing has reviewed the Selected State Purchasing Practices prepared by the Performance Audit Division of your office and would like to take full advantage of your invitation to respond. However, due to the short time allowed to respond, I would like, as you and I discussed, to reserve the right to add additional comments at a later date. But first, I would like to take this opportunity to thank you and your Performance Audit team for the recommendations offered in the report and agree, for the most part, and assure you that we will implement and/or improve in those areas addressed where possible.

I must, at this time however, express my disappointment and surprise in the scope of this performance audit. It was my understanding that the audit would encompass a performance audit on state procurement and not just State Purchasing, but this audit review appears to only address the Office of State Purchasing. There was no review done on the agency procurement, colleges and universities, vo-tech schools, etc.

The methodology used in this report is unscientific and judgmental and only appears to report the negatives of this office. One of the factors that seriously affected this audit is not enough time was allocated for a thorough review of statewide procurement activities. Without the review of others, this audit is similar to the scissors that were inferior on our contract--scissors that cut with half the blade.

Chapter 2 - Managing Statewide Contracts

We share your concern that the State's current management information system is incomplete and lacks the capability to electronically track total statewide procurement expenditures. Though procedures are in place, manual data accumulation and submission by agencies is indisputably not dependable, cumbersome and ineffective. Acknowledging our

system's limitations, we must however operate and make our best informed management decisions on statewide procurement issues using our available tools and resources.

The performance Audit Division has noted that ISIS/AGPS will immensely improve, but will not perfect, the state's information system for procurement. This office agrees with your recommendations that our decision-makers mandate agency participation, or usage reporting at minimum, in ISIS for electronic data collection.

Administrative costs for establishing contracts vary to the point of becoming contract specific. In general, many brand name contracts are less expensive than competitive contracts. However, contract management for brand name personal computers is very labor intensive. Many statewide contracts are labor intensive in their developmental stages, yet require less time in management during the contract period. The costs will vary. The Office of State Purchasing's administrative costs should be greatly offset by the administrative savings for agencies using our contracts.

We disagree that \$50,000 should be the threshold for all contracts. Most brand name contracts do not take a lot of procurement officer time to manage, but save the State Agencies administrative costs. Brand Name Contracts (multi-award, price lists) are established for agency convenience and it is not a requirement that agencies purchase from them. Brand name contracts are established when at least three (3) state agencies write letters requesting a specific commodity area be placed on contract. (See exhibit 1). Brand Name contracts are used in areas where our staff lacks the technical expertise to write competitive specifications, lacks available money to have laboratory compliance testing, or where test methods are not available, or in some instances, where it is not feasible to competitively bid because only one product would satisfy the State's needs.

The data processing statutes (LRS 39:199E) specifically allow for micro-computer equipment and word processing equipment through brand name contracts.

Our threshold to maintain brand name contracts for personal computers is \$50,000. Other areas such as chemicals and specialty medical items are \$5,000. This amount was established due to the smaller dollar price of these items. We will explore whether this threshold should be raised. (See Exhibit 3)

The Office of State Purchasing agrees with NASPO's comments about preferences and concurs with your findings. Procurement personnel would prefer to award to the lowest responsive and responsible bidder; however must consider and adhere to statutory preference requirements. Preference statutes (LRS 39:1595, 1595.1-6) are listed in Appendix A of the audit.

Louisiana Revised Statute 39:1564.C requires the Office of State Purchasing to perform inspection, testing and acceptance of supplies, services and major repairs. The money and positions are requested in our budget each year, but have not been funded since 1986. We disagree that a quality control program could be successfully implemented and maintained through a mere reallocation of our limited resources. Personnel are not the only resource

necessary to perform such functions.

- (1) Budgeted funds are necessary to conduct laboratory testing for product compliance, to conduct comparative site visits of different manufacturing facilities when evaluating products or writing specifications, and to attend trade shows to obtain knowledge on new products.
- (2) Acceptance of major repairs requires engineering expertise.
- (3) Vehicles and funding for travel are required to implement an inspection program.

When the Office of State Purchasing had a funded inspection program, we discovered that most quality problems were not related to the products awarded, but were the result of product substitution by the vendor. Agency receiving personnel were not employing proper receiving and inspection procedures and the inspectors provided intensive statewide training at each agency. The product sampling and evaluation function performed prior to contract award does not ensure vendor compliance thereafter. Agencies do not always advise this office of non-conformance, though substitutions are expressly prohibited.

Since 1984 we have requested funds to implement the audit program, but funding has never been approved. We have continuously asked for personnel, travel and funding to perform our inspection duties since the program was eliminated in 1987. Specification writers have been requested to assist in development of competitive specifications which meet the state's needs. Funding for these positions was eliminated in the late 1980's.

The list of examples that were quality related problems are so minimal in comparison to the 30,000 plus items that we maintain on our state contracts. ie: Pair of socks that were not the same size or length; pens that leaked, leaving large blot on the paper; hand soap that was very harsh; electric staplers that jammed and did not staple; scissors that cut with half the blade, "Off Brand" items not found in any office supply book; janitorial supplies.

Our positive efforts and contracts for vehicles, medical equipment (i.e., X-ray, Cat-Scan, Mammography,) PC's, office furniture, tires, batteries, printed items and hundreds more deserve applause, yet are unmentioned.

State Agencies Lack Flexibility to Make Purchases Outside of State Contracts.

To allow state agencies to justify circumventing the mandatory use of statewide competitive contracts on the basis of price alone negates the integrity intended by the procurement code. We must question why this vendor did not participate in the bid process - is he willing and able to offer the lower price for a period of twelve months and inclusive of equalized statewide freight? Our general findings are that he cannot.

The audit is misleading in its representation that other states do not have to justify by-passing the contract for price alone. This in fact is not the case.

In my discussion with the directors of 12 of the Southern States, only two (2) of 12 allow an agency to by-pass the contract if they can obtain better pricing. Also, one state has a new

law effective 1994 where the pricing must be 10% lower than contract price. The two (2) states that allow contract circumvention for lower prices do require the agency to obtain three (3) prices from three (3) vendors showing they are getting a lower price for an identical product with the same freight terms, warranties, and service availability as required by state contract. They have told me this situation rarely occurs.

The other nine (9) states say once the contract is established, they will not use price alone as a factor, but will consider delivery and compatibility factors if justified in writing. One (1) state will allow lower priced purchases off contract if a lower quality non-contract product will meet their needs. This state must justify this purchase. Most concur with the Louisiana Office of State Purchasing, any vendor can beat a published price especially for a one-time purchase. They also stated that the integrity of the bid process would be jeopardized.

The antidotal comments included in this audit from agency purchasing officials leads to a very subjective conclusion by the audit team. In speaking with the purchasing staff, we are not aware of creating a cumbersome process to by-pass using the contract. The agency must simply state the reasons the contract item does not suit their needs. (See Exhibit 2)

Chapter Three: Assessing Vendors' Performance

The Office of State Purchasing has a complaint form that is part of the Agency Purchasing Manual (See Exhibit 3). Agencies have been instructed at every annual agency seminar to notify this office of any complaints with delivery or poor quality.

The State of Louisiana encourages doing business with Louisiana Small, Minority and Women owned businesses. Just as agencies complain about vendors not making timely deliveries, vendors complain to this office about agencies not paying within the thirty (30) day time frame. Due to limited funding, small businesses exceed their credit line with manufacturers causing delays in placing orders when agencies fail to pay promptly. I do not believe this audit team discussed any issues with vendors on our bidders list only state agencies.

There is a procedure for handling deliveries of inferior products, however, this office is not always notified by the end user. When notified, we advise the vendor to pick up the product and either supply the proper product or we will purchase on the open market and charge back the difference in cost to the vendor if higher than contract price.

In order to rule out a vendor for being non-responsible or cancel his contract, a contract controversy hearing must be held. It has been our experience either before or after a hearing, agencies cannot offer supporting documentation necessary for a due process hearing on vendor's non-responsibility.

It should be noted that some complaints outlined in this report go back as far as 1974. It is basically impossible for a vendor to do business with the state for over 20 years and not get complaints. When a vendor reacts to the complaint and resolves the issue at hand, State Purchasing weighs this as a good faith effort from the vendor. It is agreed that if continuous complaints are not resolved, further action would be necessary.

The process for dealing with vendor performance cannot be reduced to a science, and the number of complaints received must be weighed with the amount of business and time taken to respond to these complaints. The majority of our vendors are distributors dependent upon the manufacturer. This creates delays beyond their control (ie., strikes, back orders, shortages etc.). This process requires judgement on the part of this office and therefore does not lend itself to a hard set of rules.

In regards to complaint follow-up, this office does have procedures, although not written. However, we do have specific letters that the procurement officer must use (See Exhibit 5). If our employees do not follow up, this is a problem with the staff and will be corrected immediately.

The majority of vendors doing business with the state are very good vendors. It is unfair to make it appear that a large number of vendors are not performing. We have approximately 3800 vendors enrolled on our bidder's list. In the chart regarding vendor complaints, it should be noted three (3) of the vendors are currently suspended from doing business with the State. Again complaints should not determine the action to take; however, the manner in which the vendor responds to the complaint.

Chapter Four: Purchasing Levels

The audit is incorrect in saying delegated authority of agencies have not been increased since 1980. Our records will indicate that we have increased delegation to agencies constantly. Only nine (9) agencies are at the maximum delegation allowed. Several of these have had their delegation increased since 1980. This is an ongoing process. We must be cognizant of the fact that only a few of these nine (9) agencies would be considered for a higher delegation due to their lack of personnel and performance record.

Our response to each recommendation follows:

Chapter 2: Managing State Contracts

RECOMMENDATIONS:

- 1. The Division of Administration should ensure that complete procurement information for all State departments and agencies is available, including those on ISIS as well as those not on ISIS. Those agencies not on ISIS include the Department of Labor, Department of Transportation and Development, State Boards and Commissions, and Colleges and Universities.**

This data should include state contract usage as well as small purchase information. Capturing this data may involve modifications to ISIS/AGPS, which could be phased in over time.

We share your concern that the State's current management information system is incomplete and lacks the capability to electronically track total statewide procurement expenditures.

2. **The Office of State Purchasing should use the contract usage data to evaluate the cost effectiveness of state contracts in order to determine which contracts to continue or discontinue. The Office of State Purchasing should use the data on small purchases to determine if it would be cost effective to include some of these items on state contracts.**

Exhibit 3 will show you the evaluation process that the Office of State Purchasing uses to determine if a contract should be discontinued, rebid, or renewed.

The Office of State Purchasing does use repetitious agency requests to determine if a contract should be established. The organization at OSP with team buying allows a State Procurement Officer to make this determination based on his specific commodity assignments.

OSP Does Not Evaluate the Cost Effectiveness of State Contracts

1. **The Office of State Purchasing should track all administrative costs associated with state contracts. These cost components should include the cost to issue a state contract, a requisition and a purchase order.**

Administrative costs for establishing contracts vary to the point of being contract specific. Therefore, we are not convinced of the usefulness of this information.

2. **The Office of State Purchasing should use the cost information to routinely evaluate the cost effectiveness of state contracts. Contracts for which costs exceed their benefit to the state should be eliminated.**

It seems impossible that the cost to bid, evaluate, award, maintain a state contract would exceed the cost of every state agency having to perform these functions for their individual procurement needs. The dollar usage on a state contract is the important factor. A brand name contract does not require a lot of time; limited product evaluation is required and price is the main factor.

3. **For low priced items, the Office of State Purchasing should make cost evaluations in the three areas suggested by NASPO.**

Two of these three items are already being done by the Office of State Purchasing:

- a. **Eliminating repetitive bids.**

- b. The small purchases Executive Order allows user agencies to do informal bidding.**
- c. Consolidated purchasing is the only one not being utilized. Our computer system does not have the capabilities of consolidating bids. ISIS will have that capability, and we plan to utilize when it becomes available.**

LOUISIANA LAW CONTAINS ELEMENTS WHICH MAY INCREASE STATE CONTRACT PRICES:

Matters for Legislative Consideration

- 1. The legislature may wish to consider reviewing and updating various aspects of the procurement code and other areas of state law dealing with preferences, exclusions, and exemptions would include a determination of whether they should be limited to those absolutely necessary in order to maximize to the fullest extent practicable the purchasing value of public funds through competitive bidding and volume buying.**

The OSP would not oppose such legislation.

CRITICAL QUALITY CONTROL FUNCTIONS ARE NOT PERFORMED

Recommendations

- 1. The Office of State Purchasing should reallocate resources to ensure that the necessary quality control functions are performed. These functions include inspection; testing; and acceptance of supplies, services, and major repairs. If other recommendations in the report are implemented, OSP should be able to reduce its administrative workload and increase its focus on these critical quality control functions.**

We have addressed this in our response, however, we will reiterate. We agree we should perform the functions listed above; but this would require a major change in the state procurement system. A reallocation of OSP resources alone will not support an effective quality control program.

OSP believes a quality control function includes not only inspection, but a specification writing section dedicated to eliminating many problems on the front end.

An increased quality control function requires more people (or reallocated people), vehicles, travel budget, subscription funds, fees for testing laboratory - all of which are not currently included in the budget.

2. **The Division of Administration should ensure that compliance and operational audits are routinely conducted on purchasing operations.**

In the event an audit section is established and funded, OSP will comply.

Matters for Legislative Consideration

1. **The legislature may wish to consider requesting a performance audit to determine if OSP's current staffing level and mix are sufficient to support an effective quality control function. Specific functions to be considered would include inspections, lab testing, and specification writers.**

The OSP would not oppose this type of legislation.

STATE AGENCIES LACK FLEXIBILITY TO MAKE PURCHASES OUTSIDE OF STATE CONTRACT

Recommendations

1. **OSP should consider allowing price as justification to allow purchases outside of state contracts.**

We disagree with this and so do nine out of 12 southern states. The information contained in your audit finding is incorrect.

**Arkansas - No
Georgia - Yes
Mississippi - Yes
Missouri - No
South Carolina - No (however, 1994-new legislation will allow
if 10% reduction in price is realized)
Texas - No
Virginia - No
West Virginia - No
Louisiana - No**

I spoke to the Directors of Procurement of these states and all advised me, with the exception of Georgia and Mississippi that they did not allow price after contract is established. They felt this would effect the integrity of the bid process. Like Louisiana, they allow written justification if the contract does not meet their delivery needs, compatability, requirements, and other justifiable reasons. The Directors in

Georgia and Mississippi, advised me that a state agency must obtain three (3) bids for the same brand, service, delivery and terms of contract and they make a decision on an individual basis. They also told me this was rarely used.

2. **OSP should simplify and streamline the process for justifying an agency's need to purchase items outside the state contracts, especially as it relates to issues of quality and delivery.**

We do not feel that we should streamline the process. People, by nature, are a little lazy and do not want to do extra work. However, if someone has legitimate reason, we have always acquiesced (however, we will continue to disapprove those requests which are unreasonable). Delivery has always been a factor that could be justified.

3. **OSP should clearly state the reasons agencies will be allowed to purchase outside of state contracts. OSP should communicate this information to agency purchasing officials to ensure that they are aware of all reasons for which justification may be approved.**

The antidotal comments included in this audit from agency purchasing officials leads to a very subjective conclusion by the audit team. In speaking with the purchasing staff, we are not aware of creating a cumbersome process to by-pass using the contract. The agency must simply state the reasons the contract item does not suit their needs (Exhibit 2).

This information is available in the Administrative Code and also provided each time an agency requests permission to by-pass state contract. They are also instructed at agency seminars held once each year.

4. **The Division of Administration should continue to study the benefits of consortia and Just-in-Time purchasing for some applications to alleviate delivery-related problems. These concepts are discussed in detail in Chapter Five.**

As we write this response, our office, along with committee members, are meeting with Consortia Companies to evaluate their offers submitted.

Just-in-time delivery could be handled when we contract with a consortia.

CHAPTER THREE: ASSESSING VENDOR'S PERFORMANCE. OSP DOES NOT EFFECTIVELY MONITOR VENDOR PERFORMANCE.

Recommendations:

1. **OSP should establish guidelines indicating that, when a certain number of vendor complaints have been received within a given period of time, the vendor's file will be reviewed for appropriate action. OSP should also set criteria for the severity**

of action to be taken and apply this criteria uniformly.

The OSP has instructed its personnel on how to handle complaints. Form letters were established to cover each application (See Exhibit #5). However, with over 30 State Purchasing Officers, someone is going to drop the ball and delays will occur.

Louisiana has many good vendors on our bidders list and the auditors chose to use 25 complaints from two (2) agencies. Twenty-five complaints out of 498 contracts and over 10,000 purchase orders seems pretty good to me, especially when you look at the complaints...pens that leaked, hand soap harsh on hands, pair of socks that were not the same size in length, scissors that cut with half the blade, and other incidental items.

I do not believe that these types of complaints could have been avoided just because you have an inspection program. I do believe reaction on a timely basis is essential.

2. **OSP should determine whether the complaints component of ISIS/AGPS will include the capability to centralize all complaints received from agency purchasing officials. If the system does not have this capability, OSP should implement other means of maintaining a central log. OSP should use this central log to ensure that all complaints are addressed in a timely manner.**

It is my understanding that ISIS/AGPS will have this capability. However, it will be the responsibility of the agency to input this information into the system so OSP can take necessary action.

3. **OSP should establish formal time frames for following up on agency complaints against vendors. OSP should routinely compare actual response times to the established time frames to ensure that the guidelines are being followed.**

We agree.

4. **OSP should work with agency purchasing officials to convince them that it will be worth their time and effort to file complaints.**

Good communication with state agencies has always been our goal and we will try to improve in this area.

CHAPTER FOUR - PURCHASING LEVELS

Current Purchasing Limits Have Not Kept Pace with Inflation

Recommendation:

1. **OSP should review the maximum delegated purchasing authority and adjust it as needed**

to reflect the effects of inflation on real buying power.

OSP is planning to increase the delegated authority to those agencies who have adequate qualified staff.

We will not increase an agency's authority who is going to request additional staff or their performance records do not justify an increase.

2. **OSP should also review the delegated purchasing authority limits allotted to individual limits allotted to individual state departments and agencies and make similar adjustments based upon inflationary trends. In doing so, OSP should continue to abide by its policy of considering the size, experience, and qualifications of agency purchasing staffs.**

Again, the auditors have used incorrect information. We are constantly either increasing or decreasing delegated authority, depending on the request received. The agency must have appropriate training and their performance records must be good.

We are requesting each purchasing supervisor to make a recommendation before granting this.

We will consider raising the maximum for those agencies meeting criteria established by OSP.

3. **OSP should review the small purchasing solicitation thresholds and related bid requirements and make a recommendation to the governor to modify Executive Order No. EWE-92-53. The modification should include a restructuring of the dollar amounts as well as simplification of the bid requirements. In making its recommendation to the governor, OSP should consider the potential impact of the credit card pilot program, which is discussed in Chapter Five.**

While we have increased small purchasing limits over time, we agree that we need to review to determine if the thresholds should be increased and by how much.

As soon as our Purchasing Rules and Regulations are finalized, it will be necessary to have an executive order issued to reflect changes.

4. **OSP should establish a schedule to periodically review and evaluate the various purchasing levels and make adjustments as appropriate to reflect the effects of inflation.**

We agree and will make very effort to do this.

CHAPTER FIVE: INNOVATIVE PRACTICES

Recommendations

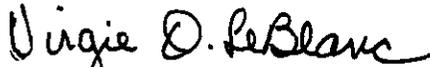
1. OSP should continue to explore the potential benefits that the following practices provide for the state:

- * EDI
- * Purchasing schedules and catalogs
- * Credit card Purchasing
- * Consortia purchasing
- * Competitiveness initiatives

We strongly agree with all of these. In fact, we gave this list to the Secure Committee when we gave them our oral presentation.

If more time could have been allowed for the response, a more comprehensive response could have been submitted.

Sincerely,


Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

cc: Raymond Laborde
Whit Kling
Edgar Jordan

DIVISION OF ADMINISTRATION
OFFICE OF STATE PURCHASING

DATE: June 22, 1994
NO: PP-38

POLICY MEMORANDUM

TITLE: Letters for the Establishment of Brand Name Contract
(PC's and other commodity areas)

PROCEDURE: The standard procedures for establishing a Brand Name Contract are to be followed, including the requirement that a minimum of three (3) state agencies send letters requesting the establishment of the brand name contract; however, an agency such as Louisiana Health Care Authority or Department of Health and Hospitals or Department of Social Services who are responsible for numerous agencies could be considered with only one letter, however it must reviewed and approved by the Director of State Purchasing.

The Legislative Auditor has recommended that State Purchasing maintain permanent records of these letters requesting establishment of a brand name contract, and also the original letter from the vendor requesting the contract.

The original, therefore, of these letters must be maintained in a permanent file by the State Purchasing Officer handling the commodity. A copy of these letters should be placed in the contract file.

In cases where a vendor has multiple brand name contracts, each set of letters requesting establishment of a brand name contract should be clearly identified.



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATE PURCHASING

EDWIN W. EDWARDS
GOVERNOR

RAYMOND I. LABORDE
COMMISSIONER OF ADMINISTRATION

**PROCEDURES FOR REQUESTING A
BRAND NAME CONTRACT**

1. The following procedures should be followed when requesting the establishment of a brand name contract:
 - a. Letterhead request from manufacturer or his representative requesting the establishment of a contract with all pertinent information included.
 - b. Detailed specifications of the item(s) requested to be placed on contract are necessary, including model numbers, product name, product codes, packaging information, description and literature. Items requested should be separated into commodity categories such as Jan. - Chem., Laundry Chem., Drugs, Surgical Scrubs, etc.
 - c. A minimum of three (3) letters from three (3) separate state agencies is necessary, indicating their intent to purchase or rent the specific items if placed on contract. The only acceptable letters will be from state agencies, i.e. hospitals, institutions, colleges, and universities, etc. Political subdivisions or quasi-public agencies will not be accepted. These letters must include those items that the agency intends to purchase or rent, and the correct packaging (where applicable), including the anticipated annual usage per item, and letters must be signed by proper administrative personnel. Failure to submit accurate and complete information will cause your request to be delayed.

In order to expedite your request, it is best to submit all of the above at the same time. The request for a contract is subject to approval after all information is received and in proper order. Feasibility questionnaires may be needed to clarify information.
2. When approval is granted, a bid proposal will be prepared by this office including those items in specific packaging as requested by the state agency letters.
3. Vendor must submit with bid either the most recent, published, manufacturer's printed price list or a signed and notarized typed listing of manufacturer's prices covering all items requested.
4. All vendors seeking to establish a brand name contract should have a current bidder's application on file at the State Purchasing Office. Requests for bidder's application forms should be directed to (504) 342-8049, or Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.
5. Each contract is reviewed annually by State Purchasing, approximately four (4) months prior to expiration of contract. In order for a contract to be considered for continuance by State Purchasing, the computer list must denote at least \$5,000.00 usage during the contract period. If it does not, the prime contractor will be responsible for furnishing this office with copies of State agencies' purchase orders or invoices substantiating purchase of \$5,000.00 or greater. Also, individual items with no usage may be deleted unless these can also be substantiated by copies of purchase orders from State agencies.





State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATE PURCHASING

EDWIN W. EDWARDS
GOVERNOR

RAYMOND J. LABORDE
COMMISSIONER OF ADMINISTRATION

PROCEDURES FOR REQUESTING CHANGES
TO AN EXISTING BRAND NAME CONTRACT

1. *The following procedures should be followed when requesting the addition of item(s) to an existing brand name contract:*
 - a. *Letterhead request from prime vendor requesting the addition of the item(s) with all pertinent information included.*
 - b. *Detailed specifications of the item(s) requested to be placed on contract are necessary, including model numbers, product name, product codes, packaging information, description and literature, and price to State of Louisiana.*
 - c. *Prime vendor must submit with the request for item(s) either the most recent, published, manufacturer's printed price list or a signed and notarized typed listing of manufacturer's prices covering all items requested.*
 - d. *A minimum of one (1) letter from a state agency is necessary, indicating their intent to purchase or rent the specific items if placed on contract. The only acceptable letters will be from state agencies, i.e. hospitals, institutions, colleges, and universities, etc. Political subdivisions or quasi-public agencies will not be accepted. These letters must include those items that the agency intends to purchase or rent, and the correct packaging (where applicable, including the anticipated annual usage per item, and letters must be signed by proper administrative personnel. Failure to submit accurate and complete information will cause your request to be delayed.*

In order to expedite your request, it is best to submit all of the above at the same time. the request for the addition of items(s) is subject to approval after all information is received and in proper order.
 - e. *Items requested to be added to a contract at the time of award will be expected to comply with all of the above.*
2. *Additions to brand name contracts will be made only twice during the contract period, other than amendments made at the time of bid or renewal.*
3. *Distributor vendor changes, price reductions and item deletions may be made at any time during the contract period. These requests for changes must be submitted by the prime vendor.*



EXHIBIT 2

Appendices

Property Control

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proposal and re-adver-

U-1

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be handled in normal
e bids.
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nts.

U-2

uesting "no substitute"
e submitted with requi-
the director or his des-
proper justification for
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U-3

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properly prepared spec-
l to the agency outlining
d for bidding.
d and forwarded to pur-

U-4

er cancellation or change
led.

Policy:

Agency should attach vendor's written acceptance to
agency's request for cancellation or change.

Comments:

Purchase order changes or cancellations on orders is-
sued by State Purchasing must be through the State
Purchasing Office and not directly by agency with ven-
dor.

INTERNAL GUIDELINE NO. U-5

Situation:

Agency requisitions emergency purchase and has pro-
vided justification.

Policy:

A recommendation should be made by the buyer/pur-
chasing agent to the director or the assistant director,
in the director's absence, whose approval is required.
Approval should indicate method of purchase, i.e. tele-
phone quotes, 10-day bid, etc. Justification must meet
requirements of Section IV, Paragraph B of the Rules
and Regulations.

Comments:

Follow current Executive Order if possible. An ap-
proval on emergency purchases, to be handled at agency
level, should be recorded by the director or assistant
director for future verification.

INTERNAL GUIDELINE NO. U-6

Situation:

Agencies seeking to purchase items covered by a state-
wide competitive contract and requesting that the
agency not use the contract.

Policy:

All exceptions shall be approved by the director or his
designee. The following exceptions are the only ones
which may be considered.

1. Functional Differences, for example:

- a. Size available is not suitable because of space limitations.
- b. Compatibility with existing equipment.
- c. Products available will not meet agency's needs.

2. Agency's need is so small that it cannot use the
minimum order quantity in the contract.

Title 34. Government Contracts, Procurement and Property Control

3. Delivery of contract item does not meet agency's urgent requirement.

Comments: A lower local price is not justification for exception. The contract vendor has guaranteed prices for a year and is delivering the item to the agency.

When a minimum is established, agencies may purchase up to minimum in accordance with current Executive Order within agency's delegated authority.

When no minimum is established, agencies must use contract, except in an emergency situation as defined by Section IV of the Purchasing Rules and Regulations.

INTERNAL GUIDELINE NO. V-1

Situation: Bidder wishes to withdraw his bid after bid opening, but before purchase order is issued.

Policy: Request must be in writing on a timely basis and justified. If no bid bond has been required, bid may be withdrawn without penalty. If bid bond has been required, no relief can be granted and bond must be forfeited if vendor does not perform, unless director authorizes otherwise.

Comments:

INTERNAL GUIDELINE NO. V-2

Situation: Bidder wishes to withdraw his bid before bid opening.

Policy: Request must be in writing and received prior to bid opening time. Bid must be retained by State Purchasing in the file.

Comments: Bid should remain unopened, attached to letter, and kept in files.

INTERNAL GUIDELINE NO. V-3

Situation: Bidder wishes to withdraw his bid after purchase order has been issued to him.

Policy: Request must be in writing and with sufficient justification and must be timely (i.e. no later than 10 days after mailing of purchase order to vendor). If request is

Title 34. Government Contracts, Procurement and Property Control

performance bond requirement should be 25 percent of the total amount.

If performance bond has been required, this requirement cannot be waived. The bonding company must be licensed to do business in Louisiana with all fees current.

Comments: Titles 38 and 43 require specific amounts for performance bonds. Performance bonds undetermined amounts should not be required in I.T.B.

INTERNAL GUIDELINE NO. A-3

Situation: Only one bid is received in response to a bid solicitation.

Policy: Bid should be analyzed to determine:

1. Were proper bidders solicited?
2. Were prices competitive?
3. Were specifications open?

Comments: Review should be done within delegated authority.

INTERNAL GUIDELINE NO. C-1

Situation: Review of contracts.

Policy: All contracts should be reviewed annually. Review should include at a minimum:

1. Dollar volume must be at least \$5,000. Contracts under \$5,000 require approval by the director or the assistant director in his absence.
2. Misuse—is contract being misused by agencies?
3. Prices—are prices competitive with other states and other vendors?
4. Terms and conditions—is there a need to alter?
5. Contract items not being used should be deleted from contract.
6. Conversion—Possibility of converting from brand name to competitive contract.

EXHIBIT 4
DEFICIENCY/COMPLAINT REPORT

DIVISION OF ADMINISTRATION
PURCHASING SECTION
P.O. Box 44095
Baton Rouge, Louisiana 70804

DA 3496
Rev 3-83

Complete this form to report complaints against vendors, commodities, or to report any unsatisfactory service by the Purchasing Section.
Be sure to furnish all necessary detail so that a satisfactory settlement of the complaint can be made.
Please verify all information to insure accuracy. Complaint reports become a permanent record of the commodity or vendor concerned and must be accurate to guarantee intelligent and equitable settlement to serve as a guide for future action.

Agency		Name and Address of Vendor	
Date of Complaint	Requisition Number		
Contract Award Number	Purchase Order Number		
Commodity or Commodities Covered By Complaint			

NATURE OF COMPLAINT		
DELIVERY	QUALITY	OTHER
<input type="checkbox"/> Delivery not made on date ordered or promised	<input type="checkbox"/> Quality of commodity is inferior	<input type="checkbox"/> Purchase authorization or contract award not awarded
<input type="checkbox"/> Delivery made at an unsatisfactory hour	<input type="checkbox"/> Unsatisfactory and unauthorized substitute delivered by vendor	<input type="checkbox"/> Invoice price higher than authorized
<input type="checkbox"/> Delivery made to wrong destination	<input type="checkbox"/> Unsatisfactory workmanship in installation of commodity	<input type="checkbox"/> Weight received at variance with invoice or shipping ticket
<input type="checkbox"/> Improper method of delivery	<input type="checkbox"/> Commodity lacks required inspection stamps	<input type="checkbox"/> Quantity delivered in excess of order
<input type="checkbox"/> Unauthorized delivery made before issuance of order		<input type="checkbox"/> Quantity delivered less than ordered
<input type="checkbox"/> Delivery in damaged condition		

REMARKS

NOTE: Give detailed explanation of complaint in this space, using reverse side if additional space is necessary. Indicate manner in which you suggest complaint be settled. Be specific.

INSTRUCTIONS TO AGENCY Prepare in triplicate Parts 1 & 2 - Send to State Central Purchasing Part 3 - Your Copy - Retain	Complaint Initiated By (Name)	Title	Phone No
	Complaint Form Executed By (Name)	Title	Phone No

Action Taken: _____

VENDOR



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF STATE PURCHASING

EDWIN W. EDWARDS
 GOVERNOR

April 19, 1993

RAYMOND J. LABORDE
 COMMISSIONER OF ADMINISTRATION

MEMORANDUM

TO: State Purchasing Supervisors, SPO's and Secretaries

FROM: Virgie O. LeBlanc, C.P.P.O.
 Director of State Purchasing

RE: Standard Form Letters

Attached are several sample form letters that should be used when the vendor must be notified of the following:

1. Accept a vendor's request for a purchase order cancellation.
2. Deny a vendor's request for a purchase order cancellation.
3. Accept a vendor's request to cancel a contract item.
4. Deny a vendor's request to cancel a contract item or to increase the price of a contract item.
5. Forward a complaint to a vendor who delivered late on a purchase order.
6. Forward a complaint to a vendor who has not delivered an item on a purchase order.
7. Forward a complaint to a vendor who has delivered an item that is inferior and does not meet the specifications.
8. Complain to a vendor who is consistently delivering late on contract items.
9. Advise a vendor that because of his non-delivery, State Purchasing has authorized an agency to purchase the item needed and the vendor will be charged any increase in cost.
10. Advise a vendor that he must pay a specified surcharge or face legal action.
11. Advise a vendor that we do not provide bid tabulations.

Before you select a letter, review a vendor's file to determine the appropriate one. If your circumstances warrant the need for additional information to be included, you may do so, provided you have not destroyed the intent of the letter. Please do not change the original letter on the G: drive.



Page -2-

To use these letters, retrieve them from the G: drive by the file name specified at the top of the page. Read the comment at the top of the letter to make sure you have the right letter. (The comments do not print).

To retrieve a letter, press Ctrl-F-9 to perform a merge/sort, press 1. Merge

Primary file: (name of file you want to retrieve)

Press Enter.

Secondary File: press Enter

The cursor goes to the first input field, which is the date. Look in the bottom left corner of the screen for the DATE prompt. Each input field will prompt you for the information.

Key in the appropriate information and press F9 (not enter). The cursor jumps to the next input field. When all input fields are filled in, the merge is complete. If you need to quit the merge during the process, press F7 and enter Y.

If you want to save the letter you just completed, save on your hard drive (C: or D:) with a new file name.

VOL:DR:rc

198

G:\FRMLTRS\ACCPYCON.CAN

THIS LETTER IS USED TO ACCEPT A VENDOR'S REQUEST FOR CONTRACT ITEM CANCELLATION.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Contract number number~; File Number number~

We have received your letter dated date~, requesting cancellation of the referenced contract item number.

The contract issued to you constitutes a legal binding contract between the State of Louisiana and company name~.

Because your company has no previous history of requesting to be relieved of contractual obligations, and the fact that you have acted promptly in notifying this office of your situation, I am accepting your request for cancellation.

I would like to advise you that future requests of this nature will not be looked at favorably. Before submitting any bids, be certain that you can deliver as contractually required.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

VOL:buyer's initials~:typist's initials

c: Vendor File
VOL File

G:\FRMLTRS\ACCPTPO.CAN

THIS LETTER IS USED TO ACCEPT A VENDOR'S REQUEST FOR A PURCHASE ORDER CANCELLATION.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received your letter dated date~, requesting cancellation of the referenced order.

The order issued to you constitutes a legal binding contract between the State of Louisiana and company name~.

Because your company has no previous history of requesting to be relieved of contractual obligations, and the fact that you have acted promptly in notifying this office of your situation, I am accepting your request for cancellation. A purchase order cancellation is attached.

I would like to advise you that future requests of this nature will not be looked at favorably. Before submitting any bids, be certain that you can deliver as contractually required.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:\FRMLTRS\ADVSURCH.VEN

THIS LETTER IS USED TO ADVISE A VENDOR THAT BECAUSE OF HIS NON-DELIVERY, WE HAVE AUTHORIZED AN AGENCY TO PURCHASE THE ITEM NEEDED, AND WE WILL BE CHARGING HIM ANY INCREASE IN COST.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

As a follow up to our letter of date~, we advised you that you must deliver a brief item description~ within the time specified, or your company could be placed in default.

This is to advise you that your failure to deliver has placed agency name~ in a critical situation and it has been determined that you are in default of the contract. In accordance with Default of Contractor, on page 2 of the IFB, I have authorized the agency to purchase the item from another source, and you will be charged any cost in excess of the contract price. As soon as I receive verification from the agency, you will be contacted about the assessed charge.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:\FRMLTRS\DENYCON.CAN

THIS LETTER IS USED TO DENY A VENDOR'S REQUEST TO CANCEL A CONTRACT ITEM OR TO INCREASE THE PRICE OF A CONTRACT ITEM.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Contract Number number~; File Number number~

We have received your letter dated date~, requesting that you be allowed to cancel the referenced contract item due to a price increase, or to be allowed to increase your price.

The contract issued to you constitutes a legal binding agreement between the State of Louisiana and company name~. The contract clearly stated that the prices must remain firm for a period of twelve months.

Therefore, I must deny your request to cancel the item or to increase the price. You are expected to deliver within the time specified at the price quoted, or your company could be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of your intentions on honoring your contractual obligations.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Vendor File
VOL File

G:\FRMLTRS\DENYPO.CAN

THIS LETTER IS USED TO DENY A VENDOR'S REQUEST FOR A PURCHASE ORDER CANCELLATION.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received your letter dated date~, requesting cancellation of the referenced order.

The order issued to you constitutes a legal binding contract between the State of Louisiana and company name~.

I must deny your request to be relieved of this order. You are expected to deliver within the time specified or your company could be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of your intentions regarding this matter.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
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G:\FRMLTRS\LATECON.COM

THIS LETTER IS USED TO COMPLAIN TO A VENDOR WHO IS CONSISTENTLY DELIVERING LATE ON CONTRACT ITEMS.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Contract Number number~; File Number number~

We have received numerous complaints from various agencies experiencing late deliveries from your company on a brief item description~. This situation creates hardships for our agencies. You are expected to deliver within the time specified in the contract or your company can be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of what you will be doing to remedy this situation and provide deliveries on a reliable basis.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Vendor File
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G:\FRMLTRS\LATEDEL.COM

THIS LETTER IS USED TO FORWARD A COMPLAINT TO A VENDOR WHO DELIVERED LATE ON A PURCHASE ORDER.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received the enclosed complaint from the agency name~ concerning the referenced purchase order for a brief item description~.

According to the complaint, the item was not delivered on the date specified, causing the agency to be placed in a critical situation. Before submitting any bids, be certain that you can deliver as contractually required. You are expected to deliver within the time specified on all future orders, or your company can be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of what action you can take to prevent future delivery problems.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:\FRMLTRS\LATEDEL.COM

THIS LETTER IS USED TO FORWARD A COMPLAINT TO A VENDOR WHO DELIVERED LATE ON A PURCHASE ORDER.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received the enclosed complaint from the agency name~ concerning the referenced purchase order for a brief item description~.

According to the complaint, the item was not delivered on the date specified, causing the agency to be placed in a critical situation. Before submitting any bids, be certain that you can deliver as contractually required. You are expected to deliver within the time specified on all future orders, or your company can be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of what action you can take to prevent future delivery problems.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:FRMLTRS\NASDEL.COM

THIS LETTER IS USED TO FORWARD A COMPLAINT TO A VENDOR WHO HAS DELIVERED AN ITEM THAT IS INFERIOR AND DOES NOT MEET THE SPECIFICATIONS.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received the enclosed complaint from the agency name~ concerning the referenced purchase order for a brief item description~.

According to the complaint, the quality of the item delivered is inferior and does not meet the specifications.

It is imperative that you deliver merchandise in accordance with the specifications. Substitutions are not permitted unless you have received prior written approval from this office.

Please make the necessary arrangements to deliver the exact item as bid, pick up the products already delivered, and advise this office no later than date - give at least 10 days~ of what action you have taken regarding this matter.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:\FRMLTRS\NOPODEL.COM

THIS LETTER IS USED TO FORWARD A COMPLAINT TO A VENDOR WHO HAS NOT DELIVERED AN ITEM ON A PURCHASE ORDER.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

We have received the enclosed complaint from the agency name~ concerning the referenced purchase order for a brief item description~.

According to the complaint, the item has not been delivered in accordance with the delivery date specified on the order. Non-delivery or late deliveries on contractual obligations creates hardships for our agencies. You are expected to deliver within the time specified or your company can be placed in default. In the event of a default, the State reserves the right to purchase the item on the open market and charge your company any increase in cost.

Please advise this office no later than date - give at least 10 days~ of your intentions regarding this matter.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
Vendor File
VOL File

G:\FRMLTRS\SURCHARG.VEN

THIS LETTER IS USED TO ADVISE A VENDOR THAT HE MUST PAY A SURCHARGE.

DATE~

VENDOR NAME~
COMPANY NAME~
ADDRESS~
CITY, ST, ZIP~

Dear vendor~:

Re: Purchase Order number~; File Number number~

I advised you in my letter of date~, that your failure to deliver a brief item description~, placed the agency in a critical situation, and they were authorized to purchase the item from another source.

In accordance with Default of Contractor, on page 2 of the IFB, you company is being assessed \$\$\$\$\$~, which represents the cost to the agency in excess of the contract price. A copy of the invoice is enclosed for your records.

Please forward a check payable to agency name~ to my office no later than give date~. Failure to pay the assessed charge will result in further legal action, such as a debarment hearing.

Sincerely,

Virgie O. LeBlanc, C.P.P.O.
Director of State Purchasing

c: Agency~
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